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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: July 23, 2019

RE: Review of the 2018 Comprehensive Annual Financial Report (CAFR) for the City of Detroit

Executive Summary

The Legislative Policy Division (LPD) in this memorandum provides the City Council a report on the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018 (2018 CAFR). A copy of the 2018 CAFR has been presented to the members of the Budget, Finance and Audit Committee for review.

We acknowledge and commend the efforts of the OCFO (Office of the Chief Financial Officer) staff to complete the 2018 CAFR on December 14, 2018 ahead of the deadline of December 31, 2018.

Plante & Moran, PLLC, the City's independent auditor, issued an unqualified ("clean") opinion for the 2018 CAFR, including its audited financial statements and related footnotes. A clean opinion does not mean that the City's financial condition is satisfactory. Essentially a "clean" opinion means that the City's 2018 CAFR is fairly presented in all material aspects. As a result, investors, creditors, rating agencies and other interested parties reading the City's 2018 CAFR can rely on the audited financial statements and the information contained therein.

LPD's review of the 2018 CAFR was based on the following focus questions:

- Will the City of Detroit be able to pay its bills (both expected and unexpected) on time (near-term financing situation)?
- Is the City of Detroit's financial health improving or deteriorating (long-term financial condition)?
- To what extent has the City's emergence from bankruptcy on December 10, 2014 improved the City's financial condition (post-bankruptcy impact)?

- Is it likely that today's financial position for the City of Detroit will improve or deteriorate in the future (economic condition)?

LPD's review of the 2018 CAFR focuses on major issues we raise from our review of the 2018 CAFR as we feel the 2018 CAFR addresses the preceeding focus questions. However, to gain a broader "high level" understanding of the 2018 CAFR from a financial perspective, LPD encourages the reader of this report to also read the "Introductory Section & Transmittal Letter" (pages i-viii of the 2018 CAFR) and the "Management Discussion and Analysis" section (pages 4-16 of the 2018 CAFR) in the 2018 CAFR.

Major Issues from the City's General Fund Financial Statements in the 2018 CAFR (Near-term perspective)

- Note: the governmental fund financial statements are used to assess a government's near-term financing situation since their measurement focus is primarily near-term. The City's chief governmental fund that is reported in the 2018 CAFR is the "General Fund". Most of the City's basic services, such as public protection (police and fire), recreation and general services, are reported in the General Fund. Taxes and intergovernmental revenue generally fund these services. Whether or not the General Fund's "fund balance" (assets and deferred outflows of resources[1] less liabilities and deferred inflows of resources[2]) is in a surplus or deficit position is a key indicator of the financial health of the City of Detroit as a government from a near-term perspective.

- The City's General Fund ended up with an $18.4 million operating surplus for FY 2018.

- The General Fund had an accumulated unassigned fund balance (surplus) of $131.5 million at June 30, 2018, a $37.5 million decrease from the $169.0 million accumulated unassigned surplus at June 30, 2017.[3] This means the City had sufficient assets to pay its obligations at June 30, 2018. Expenditures were less than budgeted mainly due to unfilled positions.

- The City's General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $611.2 million. As a result, the General Fund had a total fund balance at June 30, 2018 of $611.2 million, an $18.4 million increase from the $592.8 million total fund balance at June 30, 2017.

- Most of the General Fund total fund balance of $611.2 million at June 30, 2018 is assigned for reinvestment, future liabilities, and potential risks: a) $62.3 million for

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[1] A deferred outflows of resources is a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. An example of a deferred outflow of resources is an employer pension contribution made after the measurement date.

[2] A deferred inflows of resources is an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. An example of a deferred inflow of resources is a grant revenue received past the period of availability.

[3] The City has used the General Fund accumulated unassigned surplus for important expenditures. Of the FY 2017 $169.0 million accumulated unassigned surplus, $52 million was used to pay off the C Notes in FY 2018; $45.2 was budgeted in FY 2019 for blight remediation; and $52.2 million was budgeted in FY 2019 for capital improvements. Of the FY 2018 $131.5 million accumulated unassigned surplus, $73 million was budgeted in FY 2020 for blight remediation; $32.5 million was budgeted in FY 2020 for capital improvements; and $12.1 million was budgeted in FY 2020 for risk management.

Budget Reserve; b) $66.8 million for Risk Management Fund; c) $100 million for blight and capital projects; and d) $58.6 million for subsequent appropriations. In addition, a total of $103.3 million of the fund balance is set-aside and restricted for future pension contributions.

- The General Fund's cash and investments and restricted cash at June 30, 2018 totaled $643.4 million. The main reason for the General Fund's improved liquidity was the significant reduction of certain obligations (especially pension and retiree health care costs) from the bankruptcy. The graph below details the General Fund's improved liquidity per cash and investments and total fund balance for fiscal years 2018, 2017, and 2013.

General Fund Liquidity

	Cash and Investments	Fund Balance/Deficit
June 30, 2018	643,392,225	611,183,961
June 30, 2017	647,640,806	592,792,528
June 30, 2013	102,176,954	(72,980,749)

- Although the General Fund is now able to pay its bills on time, and its financial health is improving, cautionary notes are warranted. First, the City still has looming increases in pension and debt obligations. Secondly, although $643.4 million in General Fund cash and investments is sizable, the lion share of it is either obligated, restricted or assigned to a specific purpose.

<u>Major Issues from the City's Governmental-Wide Financial Statements in the 2018 CAFR (Long-term perspective)</u>

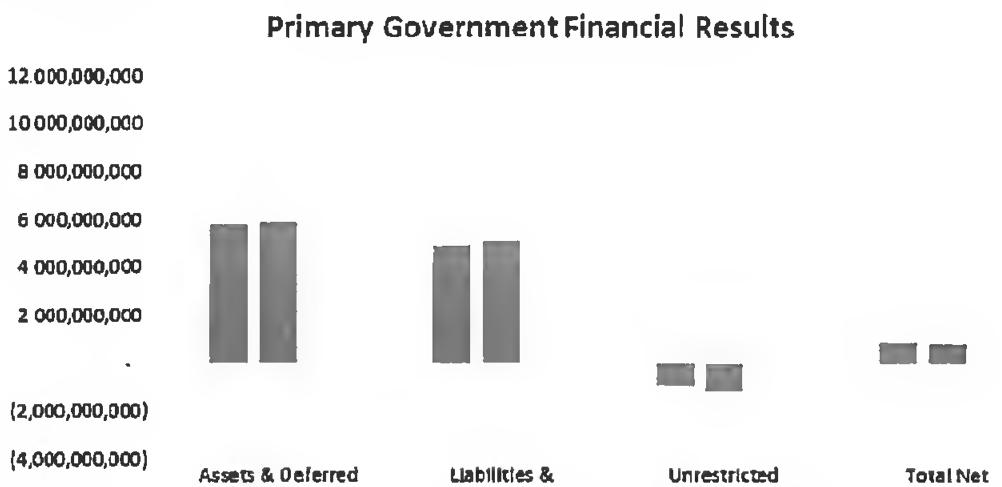
- Note: the government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. The government-wide financial statements are used to best assess the City's citywide financial condition since their measurement focus is primarily long-term. For government-wide statement of net position (i.e., balance sheet), how net position (total assets and deferred outflows less total liabilities and deferred inflows) changes over time can indicate how well a government is covering future cost of governmental operations with available resources over the long-term.

  The governmental activities and business-type activities financial statements comprise the primary government's (citywide) financial statements: Government activities- most of the City's basic services, such as police and fire, are reported under this category. Taxes

and intergovernmental revenue generally fund these services; Business-type activities- the City charges fees to customers to help it cover all or most of the cost of services it provides, such as water and transportation.

- Over time, increases and decreases in net position measure whether the City's citywide financial condition is improving or eroding. The primary government's (citywide) net position (net worth) was $898.0 million, meaning total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by $898.0 million at June 30, 2018, an increase of $86.0 million from the $812.0 billion net position at June 30, 2017. The increase was mainly due to the $96.7 million decrease of the net pension liability and the $101.9 million gain from bifurcation from both the Water and Sewage disposal funds.

- The graph below details the primary government's financial results for fiscal years 2018, 2017 and 2013.



	Assets & Deferred Outflows	Liabilities & Deferred Inflows	Unrestricted Surplus/ (Deficit)	Total Net Position
June 30, 2018	5,808,229,045	4,910,191,408	(958,884,343)	898,037,637
June 30, 2017	5,905,266,633	5,093,193,444	(1,184,661,604)	812,073,189
June 30, 2013	9,810,406,826	10,488,585,046	(2,355,364,693)	(678,178,220)

- As the previous graph indicates, the primary government's unrestricted net position deficit was $958.9 million, which means there was a shortage of assets available to meet all the City's obligations if they were immediately due and payable on June 30, 2018. This was mainly due to the City's huge legacy pension and debt obligations which are detailed below for fiscal years 2018, 2017, and 2013.

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Primary Government Legacy Debt Burden

	Net Pension Liability	LTGO Debt	POCs	OPEB Liability (Asset)
June 30, 2018	1,560,912,703	1,410,379,361		(253,358)
June 30, 2017	1,657,601,189	1,493,230,412		(669,684)
June 30, 2013	3,128,446,017	540,280,000	1,451,905,000	996,493,347

- The City's net pension liability of $1.56 billion and $1.4 billion of LTGO (Limited Tax General Obligation) debt[4] are 32% and 29%, respectively, of the primary government's total liabilities of $4.9 billion on June 30, 2018. These large pension and debt obligations threaten the financial health of the City moving forward. While the bankruptcy reduced or eliminated pension, retiree health care (OPEB), and POC (Pension Obligation Certificate) long-term debt, the City still has substantial obligations for the legacy pension and LTGO debt. The LTGO debt will mostly be paid from the revenues of the General Fund which will leave less funding available for City services.

- After June 30, 2023, the City will have significant annual obligations to fund pensions, especially if the Net Pension Liability is not significantly reduced by then. Beginning in 2024, the Plan of Adjustment assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of $111 million beginning in fiscal year 2024. Based on the latest actuarial valuation as of June 30, 2016, the anticipated General Fund contributions starting in FY 2024 are projected to be $150 million[5]. Fortunately, the OCFO has taken action to mitigate the pension required contributions in 2024 by setting aside $103.3 million from Gneral Fund surpluses in the Retirement Protection Trust Fund as of June 30, 2018.

- Of the primary government's $1.56 billion net pension liability at June 30, 2018, $757.5 million was attributable to the General Retirement System (GRS), and $803.4 million was attributable to the Police and Fire Retirement System (PFRS). The primary government's $96.7 million decrease in net pension liability from June 30, 2017 was due

[4] Limited Tax General Obligation (LTGO) debt is typically paid from General Fund revenues. Unlimited Tax General Obligatin (UTGO) debt is typically paid from a property tax debt millage that was approved by the voters.
[5] Page 111 of the 2018 CAFR, Note 12, Pension Settlements

to improved investment returns on assets of both the GRS and PFRS pension plans in FY 2017[6].

- Of the GRS primary government net pension liability of $757.6 million, $748.6 million was attributable to the GRS legacy Component II pension plan, and $9 million to the Component I new pension plan per the bankruptcy. Of the PFRS net pension liability of $803.4 million, $828.2 million was attributable to the PFRS legacy Component II pension plan, and $24.8 million (net pension asset) to the Component I new pension plan per the bankruptcy. The GRS legacy Component II pension plan was 67.57% funded as of June 30, 2017[7]. The PFRS legacy Component II pension plan was 77.92% funded as of June 30, 2017[8].

- The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of $258.3 million for the year ended June 30, 2018[9]. The total Net Position of the fund was $1.953 billion at June 30, 2018, a $25.4 million decrease from the prior year[10]. The GRS Legacy Pension Fund has a high payout ratio (1:7.6) compared to its net position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in approximately seven years and six months. The Net Pension Liability to the GRS Legacy Pension Fund was $944.1 million as of June 30, 2017.[11] The City's pension obligations are a burden that have to be closely monitored.

- The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of $313.4 million for the year ended June 30, 2018[12]. The total Net Position of the fund was $2.871 billion at June 30, 2018, a $55.5 million deerease from the prior year[13]. The PFRS Legacy Pension Fund has a lower payout ratio (1:9.2, meaning the total PFRS pension net position would be depleted in approximately nine years and two months at this rate of PFRS pension expenditures) than the GRS Legacy Pension Fund but it is still of concern. The City's Net Pension Liability to the PFRS Legacy Pension Fund was $828.2 million as of June 30, 2017.[14]

- The OCFO has taken commendable steps to reduce the LTGO debt and gross debt service for fiscal years 2025-2030 by redeeming certain bond obligations. In FY 2018, the OCFO redeemed $52.3 million of the 2014 C bonds with surplus funds, which saved the

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[6] The GRS Pension and Police and Fire Pension Plans investment rate of return net of fees and expenses were 14.1% and 12.0%, respectively for the year ended June 30, 2017 per the FY 2018 Pension Financial Statements (Page 10 GRS and Page 9 PFRS).

[7] Page 126 of the 2018 CAFR, Schedule of Changes in Net Pension Liability and Related Ratios.

[8] Ibid

[9] GRS (Component II) "total expenditures" is synonymous with "total deductions" on page 180 of the 2018 CAFR.

[10] Page 180 of the 2018 CAFR

[11] Page 94 of the 2018 CAFR. Per page 93 of the 2018 CAFR, as permitted by GASB No 68 the City has chosen to use June 30, 2017 as its measurement date for the net pension liability (asset) for its fiscal year 2018 financial statements.

[12] PFRS (Component II) "total expenditures" is synonymous with "total deductions" on page 180 of the 2018 CAFR.

[13] Page 180 of the 2018 CAFR

[14] Page 94 of the 2018 CAFR. Per page 93 of the 2018 CAFR, as permitted by GASB No 68, the City has chosen to use June 30, 2017 as its measurement date for the net pension liability (asset) for its fiscal year 2018 financial statements.

City $11.7 million in interest expenses[15]. In addition, on December 13, 2018, the City issued approximately $176 million of Distributable State Aid Fifth Lien Financial Recovery Refunding LTGO Series 2018 Bonds for the purpose of purchasing and canceling approximately $198 million of Financial Recovery LTGO Series 2014 Bonds.[16]

- The OCFO estimates the debt service for FY 2025-2030 will be reduced by $155 million because of these redemptions. Debt service beginning in fiscal year 2025 would have increased by approximately $31 million per year through fiscal year 2030 in absence of these transactions. In addition, to the reduced debt service, the City will also save approximately $21.7 million ($11.7 million interest savings on 2014 C Bonds and $10 million on 2014 B(1) and 2014 B(2) Bonds) as a result of these transactions.[17]

- The primary government (citywide) realized $1.98 billion (includes the $101.9 million special item-gain) in total revenue for the year ended June 30, 2018, an increase of $67 million from the prior fiscal year. The primary government realized $1.89 billion in total expenses for the year ended June 30, 2018, a decrease of $230 million from the prior fiscal year.

Major Issues from the City's Enterprise Fund Financial Statements in the 2018 CAFR (Long-term perspective)

- The Water and Sewage Disposal Funds had a combined $101.9 million special item (e.g., gain) during FY 2018 from the bifurcation. A final Memorandum of Understanding agreement was executed on June 30, 2018 (2018 MOU) concerning the bifurcation of DWSD and GLWA, as certain estimates from prior years were adjusted as a result of the final agreement. As a result of bifurcation negotiations and the 2018 MOU, DWSD has recognized gains (losses) from bifurcation in the current year and prior two years as follows[18]:

		Water Fund	Sewage Disposal Fund	Total
June 30, 2016	$	776,532,736	808,913,176	1,585,445,912
June 30, 2017		(85,895,242)	(72,059,278)	(157,954,520)
June 30, 2018		35,482,690	66,377,234	101,859,924
Cumulative total gain on bifurcation	$	726,120,184	803,231,132	1,529,351,316

- The City's enterprise funds[19] had a net position of $1.24 billion at June 30, 2018, an increase of $80.0 million from the $1.16 billion net position at June 30, 2017 primarily due to the DWSD bifurcation special item gain of $101.9 million. The enterprise fund cumulative unrestricted net position totaling $797.1 million in FY 2018 was a $100.9 million increase from the $696.2 million in FY 2017.

[15] Page V of the 2018 CAFR, Introduction to the Report
[16] Page 117 of the 2018 CAFR, Note 14 - Subsequent Events
[17] Page 118 of the 2018 CAFR, Note 14 - Subsequent Events
[18] DWSD 2018 CAFR Page 28, Note 9 Bifurcation
[19] The 2018 CAFR classifies "enterprise funds" as "business-type activities" in the City's government-wide financial statements.

- In FY 2018 Water and the Sewage Disposal Funds had unrestricted net positions of \$446.5 million and \$555.8 million, respectively, mainly due to the bifurcation which exchanged the water and sewer regional systems assets and liabilities including long term debt to GLWA for \$50.0 million in annual lease payments over 40 years effective January 1, 2016. The unrestricted net positions increased \$114.3 million (\$44.6 million Water and \$69.7 million Sewage) in FY 2018 from the prior year mainly due to the DWSD bifurcation special item gain of \$101.9 million.

- While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2018, both funds have large capital and infrastructure repair and replacement needs and debt obligations to GLWA that will require a large share of that unrestricted net position. A benefit of the net unrestricted net position is that water and sewer rate increases to Detroit customers will be mitigated, as the unrestricted net position through the annual \$50 million lease payment from GLWA, will provide a significant amount of the funding for both Funds' capital, infrastructure, and debt obligation needs.[20]

- In FY 2018, both the Water and the Sewage Disposal Funds had positive income before capital contributions, transfers, and special item of \$10.5 million and \$13.5 million respectively.

- The lease receivable from GLWA on DWSD's Statement of Net Position does not agree with the lease payable on GLWA's Statement of Net Position for FY 2018. GLWA shows the lease to be \$59.4 million less than DWSD for the Water Fund and \$85.5 million less for the sewage Disposal Fund. Detailed below is the difference. In the questions section we are asking the OCFO to explain why the GLWA and DWSD amounts for the lease receivable from GLWA does not agree on June 30, 2018.

in Millions

	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	\$ 485 7	426 3	59 4	\$ 606.5	521.0	85.5

- It is important to note that as of June 30, 2018, the Sewage Disposal Fund shows a balance of \$53.6 million in a liability account entitled "Due to Great Lakes Water Authority".[21] This appears to be attributable to a negative balance caused by a budget shortfall of \$47.8 million for the DWSD sewer fund which exceeds the two percent threshold (i.e., actual receipts falling short of budget for either the water fund or sewer fund by greater than two percent) per the 2018 MOU. The budget shortfall not cured by the end of the fiscal year following the year in which they arise shall be repaid in full, in installments over a period not to exceed three fiscal years. The installment payments will include a surcharge based on the three-year U.S. treasury note plus 150 basis points.[22] In the questions section of this report we ask the OCFO to provide supporting detail of the \$53.6 million that is due and how does the DWSD plan to cure this shortfall.

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[20] Attachment V "Questions on FY 2017 DWSD Financial Statements Net Position and DWSD Management Responses"

[21] Page 28 of the 2018 CAFR.

[22] Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.

- **The City needs to closely observe the financial performance of the Water and Sewage Disposal Funds after the bifurcation to ensure revenues cover expenses and essential services are provided.**

- The Transportation Fund had an unrestricted net position deficit at June 30, 2018 of $223.7 million, a $13.4 million increase from the $210.3 million deficit on June 30, 2017, mainly due to a $10.2 million increase in net pension liability. The General Fund contributed $55.2 million in subsidies to the Transportation Fund in FY 2018, which is $6.4 million less than the General Fund contribution of $61.6 million made in FY 2017.

- The Public Lighting Authority of Detroit (the "PLA") had a $34.9 million net position at June 30, 2018, a $2.7 million increase from the $32.2 million at June 30, 2017. In addition, the City provided a subsidy of $10.3 million to the PLA. The PLA had an unrestricted net position of $21.8 million in the FY 2018 CAFR, which is mainly due to the $18.3 million excess utility user tax revenues collected that will be used to pay its future debt obligations (the PLA collects $12.5 million in utility users' tax annually from the General Fund to meet annual debt service requirements).[23]

- Other Enterprise Funds include the Airport Fund and Parking Fund. The Parking Fund net position on June 30, 2018 was $32.4 million, a decrease of $42.5 million from the $74.9 million net position on June 30, 2017. The Parking Fund sold the Premier garage in FY 2018 and recorded a $21.1 million loss on the sale of assets, which was the main reason for the decline in net position in FY 2018.[24] The Airport Fund had a $3.8 million unrestricted deficit net position on June 30, 2018, an increase of $.7 million from the $3.1 million unrestricted deficit net position at June 30, 2017. The General Fund subsidy to the Airport decreased $2.1 million to $.9 million for FY 2018 from the $3.0 million in FY 2017.

<u>City of Detroit's Financial Condition has improved since its Emergence from Bankruptcy on December 10, 2014</u>

Since bankruptcy, the City's fiscal position has stabilized and strengthened[25]:

- *The City now has achieved a balanced budget for the fourth consecutive* year. While the Finance Review Commission (FRC) has no active role any longer it will continue to exist for a 10-year term. The City is still required to submit monthly financial reports, adopted budget and 4-year financial plan to the FRC each year. So long as the City continues to balance its budgets and meet other basic fiscal requirements, the FRC will stay inactive for the rest of its existence.[26]

- Note, however, that even though the City has achieved a balanced budget for four years in a row, the level of the annual surplus is diminishing:
    - General Fund surplus for FY 2015 $384.3 million[27]

[23] Attachment VI represents LPD's calculation of the $18 3 million in excess utility users tax revenues collected for the purpose of paying future PLD debt obligations.

[24] Pages 173 and 174 of the 2018 CAFR and pages 172-173 of the 2017 CAFR

[25] Most of the information in this section is from pages V and VI of the 2018 CAFR

[26] 2018 CAFR, Note 12, page 116

[27] General Fund surplus for FY 2015 was unusually large due primarily to the one-time elimination of debt, pension liability and other liabilities, coupled with an extraordinary gain coming out of bankruptcy on December 10, 2014.

- General Fund surplus for FY 2016 $ 62.9 million
- General Fund surplus for FY 2017 $ 53 8 million
- General Fund surplus for FY 2018 $ 18.4 million

- Three credit rating upgrades in less than three years.

- Income tax revenue has increased 22% over four years ($310.2 million in FY 2018 compared to $253.8 million in FY 2014).

- The Property tax collection rate has increased to 82% in FY 2018 compared to 69% in FY 2014.

- Third consecutive year of zero questioned costs of federal grant awards compared to $7.3 million in FY 2012 and $18.5 million in FY 2013.

- In February 2018, the OCFO established an Administrative Issuance System, which includes key policies, process flows, standard operating procedures, and detailed work instructions for all operations with the OCFO. Https: detroitmi.gov departments/office-chief-financial-officer administrative-issuance-system can be visited for a current listing of all policies.

It is Likely that the City of Detroit's Financial Position will improve in the future (Economic condition perspective)

Inevitably, a government's financial position will be effected by its circumstances (e.g., the vitality and diversification of the local economy, the breadth and depth of the government's tax base). Economic condition focuses on the likelihood that today's financial position will improve or deteriorate in the future. Much of the information needed for assessing economic condition involves either nonfinancial data (e.g., population and unemployment) or financial data presented for multiple years (e.g., 10-year trends). Such data typically are located either in the introductory section & transmittal letter of the CAFR, in the statistical section[28] of the CAFR and/or as part of the required supplementary information (RSI)[29].

The following major observations regarding the economic condition perspectives of the City and other initiatives are from LPD's review of the introductory section[30]in the 2018 CAFR:

- The City's current economic condition is improving. The future outlook for recovery and improvement is positive. Businesses are transferring employees from suburban cities to the City of Detroit. New residents are moving into the City. However, much of the improvement in economic development is located in concentrated areas of the City (i.e., mid-town, downtown and certain neighborhoods of the City).

- The City has committed to a multi-year effort to improve City services that impact its citizens' quality of life and that enhance sustainability. Services across all neighborhoods have drastically improved. Activities and accomplishments include:[31] a) 50,000 prevented

[28] Page 186 of the 2018 CAFR
[29] Page 120 of the 2018 CAFR
[30] Pages i to viii of the 2018 CAFR
[31] Page vii of the 2018 CAFR

foreclosures of occupied homes under programs to assist families in need; b) 65,000 new LED streetlights; c) 8,000 summer jobs for Detroit youth; d) 275 parks being fully maintained, up from only 25 in 2013, 40 of which are completely remade; e) 120 new DDOT buses added to the fleet, nine new 24-hour routes, and six brand new bus lines; f) 15 minute police priority 1 response time, down nearly 30 minutes on average; and g) Eight minute emergency medical service response time, down from nearly 20 minutes on average.

- Blight remediation remains one of the City's highest reinvestment priorities and is progressing at a strong pace. The City is leveraging substantial Federal grants, including $258.8 million in Hardest Hit Funds, alongside City funds to demolish dangerous structures and return the parcels to productive uses. Activities and accomplishments include: a) 15,000 dangerous vacant houses demolished; b) 10,000 blighted abandoned homes boarded up; and c) 3,000 vacant homes being rehabbed and reoccupied under land bank programs.

- The City is strategically using the alignment of City assets to grow and diversify Detroit's economy. The City and its economic development arm, the Detroit Economic Growth Corporation, are working to secure 10,000 jobs and $3.4 billion of investment and open 140 small businesses citywide by 2020.

- Detroit's strength as a business location is evident through its successes. Since 2012, Detroit has seen almost $1 billion invested in automotive manufacturing at new and existing suppliers and $96 million invested in over 14 full-service grocery stores. Downtown Detroit's vacancy rate has fallen 12 percent in the past five years to 17.5 percent.

- History of total primary government net position:[32]
  - FY 2018 $ 898.0 million
  - FY 2017 $ 812.1 million
  - FY 2014 $(4,040.8) million

  Since FY 2014, the impact of the bankruptcy, the bifurcation of Water and Sewer, and overall improvement in City finances has resulted in positive primary government net position figures in recent years.

- History of general fund unassigned surplus (deficit) and total general fund balance:[33]
  - FY 2018 $131 million unassigned surplus; $611 million total general fund balance
  - FY 2017 $169 million unassigned surplus; $592 million total general fund balance
  - FY 2014 $(145) million unassigned deficit; $53 million total general fund balance

  Since FY 2014, coming out of bankruptcy, with better economic conditions and with the institution of greater financial controls, the City's main operating account, the general fund, has experienced healthier financial results.

[32] Information is from statistical section of 2018 CAFR, pages 188 and 189
[33] Information is from statistical section of 2018 CAFR, pages 194 and 195

City of Detroit's Risk Factors and Potential Opportunities

Although the City of Detroit has increased its financial position in recent years, and it is likely that the City's economic condition will improve, the following represent economic and fiscal risks that should be considered[34]:

- Loss of federal funds due to changes in federal fiscal policy.
- Increased uncertainty in federal government monetary and trade policy.
- Reduction of Statutory State Revenue Sharing dollars due to challenges in the State's budget from declining finances and other critical issues.
- Lower census numbers result in loss of federal/state funds tied to population.
- Potential recession in the near future.

The following represent potential opportunities for the City of Detroit to further improve revenues:

- Potential for increased economic development to increase the City's tax base and generate additional revenues for the City.
- Sales tax on internet purchases may increase state local share distributions to city villages townships.

Other Major Issues/Observations from the Review of the 2018 CAFR

Below are other major issues and observations from LPD's review of the 2018 CAFR.

In Note 13 of the 2018 CAFR, the City disclosed the programs and the estimated amount of taxes abated during FY 2018, which was $38.7 million, a $2.8 million increase from the $35.9 million as of June 30, 2017. Listed below is a comparison of the taxes abated in 2018 and 2017.

		Abatement Amount			
		2018	2017	Difference	
Program	Legislation	Total Taxes	Total Taxes	Total Taxes	Comment
Brownfield Redevelopment Act (BRA)	PA 381 1996	$ 1,118,136	$ 1,295,479	$ (177,343)	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	606,817	628,862	(22,045.00)	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	1,543,958	415,906	1,128,052.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	6,876	2,067	4,809.00	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	6,840,208	8,446,677	(1,606,469.00)	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	1,251,594	1,088,949	162,645.00	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA 147 1992	4,571,933	4,596,460	(24,527.00)	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	313,285	321,525	(8,240.00)	Improvement of Property
Eligible Manf Personal Property (EMPP)	PA 328 1998	11,123,269	9,820,559	1,302,710.00	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam. Hous. Exempt.	PA 78 2016	153,479	71,128	82,351.00	Manage Sr Citizen & Disabled Family Housing
MSHDA	PA 346 1966	11,214,777	9,278,715	1,936,062.00	Provide 7 Manage Low-Income Housing
Totals		$ 38,744,332	$ 35,966,327	$ 2,778,005	

[34] Fiscal risks are from the February 2018 Detroit Revenue Estimating Conference report, which can be accessed at https://detroitmi.gov/sites/detroitmi.localhost/files/migrated_docs/financial-reports/Feb%202018%20Revenue%20Estimating%20Conference%20Report%20FINAL.pdf

- The Solid Waste Fund had a $61.4 million Fund Balance on June 30, 2018 compared to a $52.2 million find balance on June 30, 2017. Other Special Revenue Funds had large Fund Balances at June 30, 2018. These include: (1) Construction Code Fund (BSEED) - $19.6 million; (2) Drug Law Enforcement Fund - $9.0 million; (3) Street Fund - $71.3 million; and (4) Telecommunications Fund - $5.4 million. It appears the City has not properly allocated pension and legacy costs and other reimbursable costs (such as central staff services costs) to these funds which have the means to pay for them and relieve the General Fund of these costs. In the questions section we ask the OCFO what methodology will be explored to ensure these Special Revenue Funds are reimbursing the General Fund for reimbursable costs.

- The Plan of Adjustment (POA) requires the BSEED to annually repay the General Fund a series of payments through FY 2023 totaling $17.7 million for the loans made to the BSEED when it ran deficits prior to the bankruptcy[35]. Even though the Construction Code Fund has a $19.6 million fund balance nothing has been repaid to the General Fund and the FY 2019 Budget and Four Year Financial Plan docs not includc any provision for repayment. In the questions section we ask the OCFO why BSEED is not repaying the General Fund per the POA.

- As of June 30, 2018, the City lacked proper controls to ensure compliance with laws and regulations, which included: 1) the City failed to escheat balances to the State of Michigan; 2) thc City was not in compliance with the State's Public Act 2 of 1968, Uniform Budgeting and Accounting Act, because in some accounts actual expenditures exceeded appropriations approved by Council, and 3) in certain instances, the City's general ledger records were not always accurate, which violated certain federal regulations.

- Several funds had a large unassigned fund balance deficit or unrestricted net position deficit on June 30, 2018, including: thc General Grants Fund (Special Revenue Fund)-a $10.4 million deficit; the Detroit Public Library (Component Unit)-a $3.5 million deficit; the Local Development Finance Authority (Component Unit)-a $21.6 million deficit; the Transportation Fund (DDOT) (Enterprise Fund)-a $223.7 million deficit; and the Airport Fund (Enterprise Fund)-a $3.8 million deficit . However, the City is not required to file a deficit elimination plan with the State for any of these funds or component units because they had a positive working capital (current assets resources exceed current liabilities) as of June 30, 2018.

- **Of concern is the $10.4 million deficit in the General Grants Fund and the impact to the General Fund. In the questions section we ask the OCFO what is causing the deficit and how much will the General Fund have to pay to liquidate the deficit. Also, we ask if there is an accounting issue where expenses are not being charged to the proper fund.**

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[35] Ten Year Plan of Adjustment, Restructuring and Reinvestment initiatives Enterprise Agencies, Building Safety Engineering Environmental Department (BSEED) General Fund pages 62-63 of 70, Fourth Disclosure Statement filed with the Bankruptcy Court on May 5, 2014 (13-53846-swr Doc 4391-2)

- **Of concern is the $21.2 million of long-term advances the City had made to: (1) Sewage Disposal Fund $4.9 million; (2) Transportation Fund $4.8 million; (3) Water Fund $2.9 million; (4) Nonmajor enterprise funds $450,000; and (5) Component Units $8.1 million.[36] In the questions section we ask the OCFO to explain in detail what the long-term advances are and what they are for and why they did not come before City Council. LPD assumes some of these advances are related to those funds that are obligated to pay the General Fund for the 2014 C bonds that were redeemed by the general fund in FY 2018.**

- In FY 2018, two new Special Revenue Funds were added to the CAFR: the Bridging Neighborhoods Fund, which had an $18.4 million fund balance on June 30, 2018; and the Noncompliance Fees Fund, which had a $420,000 fund balance on June 30, 2018. In the questions section we are asking the OCFO to explain the purposes of these new funds.

- **CDBG Revenue.** Of concern was that CDBG (Community Development Block Grant) Fund federal grant revenue dropped by $14.2 million in FY 2018 from FY 2017. In the questions section we are asking the OCFO to explain the reason for the large reduction in FY 2018.

- The Introduction to the Report[37]section of the 2018 CAFR was excellent and highlighted the accomplishments of the City, which showed what a good stewardship of resources by the City's leaders, management and employees.

- The Managements, Discussion and Analysis (MD&A) in the 2018 CAFR was not sufficiently detailed to explain major variances and other relevant financial information. As a result, we have many unanswered questions concerning major changes to the City's assets, liabilities, revenues and expenses for the year ended June 30, 2018. In the questions section of our report we are asking the OCFO to explain the significant changes in FY 2018 so we can gain better knowledge of the City's financial condition on June 30, 2018.

- The Administration should be commended for the thoroughness of the 2018 CAFR. It behooves the Budget, Finance and Audit Committee to continue to do its due diligence to understand and examine the 2018 CAFR.

Introduction

The Budget, Finance and Audit standing committee is in the process of reviewing and analyzing the 2018 CAFR. The Legislative Police Division (LPD) provides this report to facilitate the committee's review of the 2018 CAFR.

The 2018 CAFR was issued on December 14, 2018 before the deadline of December 31, 2018. LPD acknowledge and commend the efforts of the OCFO (Office of the Chief Financial Officer) staff to complete the 2018 CAFR before the deadline for the first time since the FY 2012 CAFR.

[36] Page 68 of the 2018 CAFR Note 5 (b) Advances between Funds

[37] Pages i-viii of the 2018 CAFR

Independent Auditor's Report on the City's 2018 CAFR

The City's independent auditor, Plante & Moran PLLC gave the City's 2018 audited financial statements and related notes to the financial statements included in the 2018 CAFR an unqualified ("clean") opinion.

A "clean" opinion means that the audited financial statements are free of material misstatements and present fairly the financial position of the City as of June 30, 2018 in accordance with U.S. generally accepted accounting principles. As a result, investors, creditors, rating agencies and other interested parties reading the City's 2018 CAFR can rely on the audited financial statements and the information contained therein. The clean opinion, however, does not mean that Plante & Moran is signifying that the City has a financial clean bill of health.

In conjunction with its opinion on the 2018 CAFR, Plante & Moran did have an "Emphasis of Matter" paragraph, however. The American Institute of Certified Public Accountants (AICPA) define an "Emphasis of Matter" paragraph as: "A paragraph included in the auditor's report that is required by Generally Accepted Auditing Standards (GAAS), or is included at the auditor's discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements." Plante & Moran had the following "Emphasis of Matter" paragraph included in its opinion[38].

1. Water and Sewage Disposal Fund Special Item (Bifurcation Gain) As described in Note 12 to the financial statements, effective January 1, 2016, the City of Detroit, Michigan entered into lease agreements (Leases) and related service agreements with the Great Lakes Water Authority (GLWA) under which GLWA will operate the regional water and sewage system for the term of 40 years. The final negotiations of the transaction during the year has resulted in the recognition of a special item (bifurcation gain) in the statement of revenue, expenses, and changes in net position. Our opinion is not modified with respect to this matter.[39]

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[38] Page 2 of the 2018 CAFR

[39] Note 12, page 113 of the 2018 CAFR, "On January 1, 2016, the City of Detroit, Michigan effectuated a lease agreement with the Great Lakes Water Authority for the regional water system for the term of 40 years, to be extended automatically to coincide with the final maturity of any bonds issued to finance improvements to the regional or local water systems The service agreement and a corresponding lease of the regional water and sewer system collectively provide for an annual lease payment of $50 million (of which $22,500,000 is currently allocated to the Water Fund and $27,500,000 is currently allocated to the Sewage Disposal Fund) in exchange for a leasehold interest in the water and sewer system's water treatment plants, wastewater treatment plant, certain public sewers, wastewater interceptors, transmission lines, and certain other assets, including cash and investments held by the Sewage Disposal Fund as of December 31, 2015, assignment of all revenue of the regional and local water systems, and the assumption of all DWSD bonded debt and certain liabilities.

The Department has continued to negotiate some of the final issues concerning the bifurcation, and a final agreement was executed during 2018. Certain estimates from prior years were adjusted as a result of the final agreement, including pre-effective date liabilities and related cash balances, and the portion of the debt assumed by GLWA that was utilized for local system improvements, whose debt will continue to be funded by DWSD. As a result of the negotiations, DWSD has recognized gains (losses) from the bifurcation in the current year and prior two years as follows:

2. "**Focus and Questions Considered while Reviewing the City's 2018 CAFR**

The table below represents LPD's focus while reviewing the City's 2018 CAFR.

Focus	Question
Near-term financing situation	Will the City of Detroit be able to pay its bills (both expected and unexpected) on time?
Financial position	Is the City of Detroit's financial health improving or deteriorating?
Impact of bankruptcy after June 30, 2015	To what extent has the City's emergence from bankruptcy on December 10, 2014 improved the City's financial condition?
Economic position	Is it likely that today's financial position for the City of Detroit will improve or deteriorate in the future?

Major Issues from the City's General Fund Financial Statements in the 2018 CAFR (Near-term perspective)

The governmental fund financial statements (general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund) are used to assess a local government's near-term financing situation since their measurement focus is primarily near-term. The governmental fund financial statements shows for the fiscal year the revenues collected and the services they were spent on such as public protection, recreation, debt and capital. It answers the question "What did you do with the money we gave you?"

The chief governmental fund is the general fund. The general fund financial statement is based on modified accrual accounting, which means that the general fund also represents the City's check book of receipts and disbursements for the day to day operations to provide the City's most basic services (police, fire, administration, recreation, etc.) over a one-year period. As a result, the state of the general fund requires a near-term focus to ensure the bills are being paid on time.

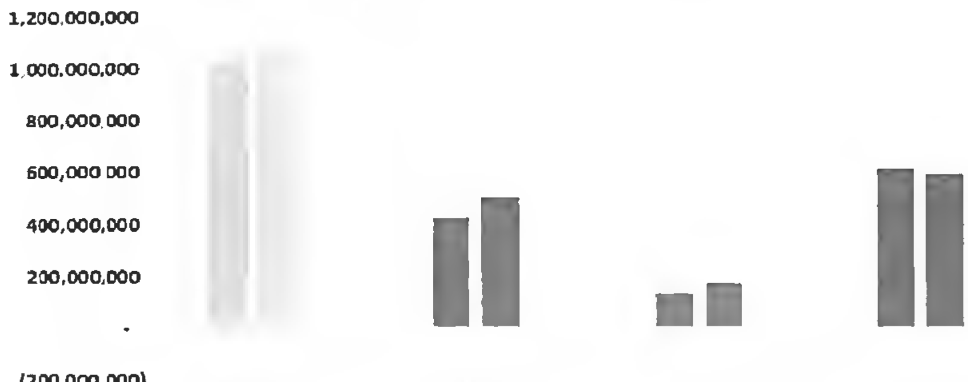
Attachments I and II are respectively, the General Fund's FY 2018 Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances compared to FY 2017 and FY 2013. These statements show the City's General Fund's financial condition: pre-bankruptcy (FY 2013); and post-bankruptcy (FY 2018 and FY 2017). The following analysis of Attachments I and II provides details on he major issues and variances for the General Fund in the FY 2018 CAFR when compared to FY 2017 and FY 2013

		Water Fund	Sewage Disposal Fund	Total
June 30, 2016	$	776,532,736	808,913,176	1,585,445,912
June 30, 2017		(85,895,242)	(72,059,278)	(157,954,520)
June 30, 2018		35,482,690	66,377,234	101,859,924
Cumulative total gain on bifurcation	$	726,120,184	803,231,132	1,529,351,316

General Fund Bankruptcy Impact as of June 30, 2018. As can be seen in Attachments I and II, the City eliminated its General Fund deficit and has greatly improved since FY 2013 due to the bankruptcy settlements. The General Fund is now able to pay its bills on time. Its financial health is improving. The future outlook for the City's financial health is relatively good as of June 30, 2018. However, there are still many issues such as the legacy pension and debt obligations, education system, poverty levels, low property assessed values and low tax base that could impair the City's financial recovery if not satisfactorily addressed.

The General Fund's fund balance went from a deficit of $73.0 million in FY 2013 to a surplus of $611.2 million in FY 2018, an increase of $684.2 million due to the bankruptcy settlements and issuance of new debt for restructuring and Quality of Life projects.

General Fund Financial Results



	Assets & Deferred Outflows	Liabilities & Deferred Inflows	Unassigned Surplus/ (Deficit)	Total Fund Balance
June 30, 2018	1,033,668,550	422,484,589	131,458,405	611,183,961
June 30, 2017	1,092,968,499	500,175,971	168,966,674	592,792,528
June 30, 2013	292,538,648	365,519,397	(132,560,895)	(72,980,749)

General Fund's Fund Balance. The General Fund's fund balance was a $611.2 million at June 30, 2018, an $18.4 million increase from the $592.8 million balance at June 30, 2017[40]. The following chart reflects the change in fund balance.

General Fund Balance Summary
(In millions)

		2018	2017	2013
Nonspendable:				
Prepaid Expenditures and Advances	$	23,017,234	11,072,987	4,050,006
Restricted for:				
Capital Acquisitions		-	-	979,826
Retiree Benefits		103,278,781	90,148,163	
QOL Program		38,262,992	54,675,178	
Debt service		27,500,000	27,500,000	
Committed for:				
Risk Management Operations		20,000,000	20,000,000	54,550,314
Assigned for:				
Budget Reserve		62,280,192	62,280,192	
Budget Carryforward		-	-	
Subsequent Appropriations		58,626,131	60,253,830	
Blight and Capital		100,000,000	50,000,000	
Pension		-	-	
Risk Management Operations		46,760,226	47,895,504	
Unassigned:				
General Fund Surplus		131,458,405	168,956,674	(132,560,895)
Total Fund Balances (Deficit)	$	611,183,961	592,792,528	(72,980,749)

[40] Page 23 of the 2018 CAFR and page 22 of the 2017 CAFR

The $18.4 million increase in the fund balance in FY 2018 was mainly due to the impact of the bankruptcy which resulted in the reduction of pension and retiree health care expenses. In FY 2018 the City's General Fund spent more on retirement of debt service (2014 C Bonds), blight, and capital projects which lowered the unassigned General Fund surplus. The non-spendable, restricted, and assigned fund balances increased $55.9 million in FY 2018 mainly due to City's increased contribution of $50.0 million for blight and capital funds.

The Risk Management Fund had a $73.4 million fund balance in FY 2017 and the City normally would have committed fund balance for the full amount of $73.4 million. The OCFO determined that $66.8 million of the fund balance should be committed and assigned. The fund balance committed for the Risk Management operations was lowered to $20.0 million in FY 2016 in accordance with the City ordinance that requires a minimum $20.0 million fund balance for that fund. An additional fund balance assigned for Risk Management operations of $46.8 million was established in FY 2018 to provide for projected future payments from the fund. The remaining $6.6 million of the Risk Management Fund balance was classified as unassigned and is included in the $131.5 million General Fund unassigned surplus.

The fund balance assigned for Subsequent Appropriations was $58.6 million and will fund additional approved appropriations in FY 2019. The fund balance assigned for blight and capital was $100.0 million and will fund demolitions and capital assets. The fund balance assigned for pension contributions was $103.3 million and will be set aside in the Retiree Protection Trust Fund to help stabilize City pension contributions beginning in FY 2024 when per the POA the City must begin to fund the legacy pension systems (Component II).

General Fund Surplus. The General Fund had an accumulated unassigned fund balance (surplus) of $131.5 million at June 30, 2018 a $37.5 million decrease from the $169.0 million accumulated surplus at June 30, 2017 and $264.1 million increase from the $132.6 million accumulated deficit on June 30, 2013. The change in the General Fund accumulated unassigned surplus from June 30, 2017 was primarily due to the: (1) $18.4 million **General Fund operating surplus**, or net change in fund balance (revenues less expenditures and other financing sources and uses)[41]; and (2) less the $55.9 million increase in assigned, restricted and committed fund balances, including the increase of $50.0 million assigned for blight and capital.[42]

General Fund Solvency. The General Fund's liquidity and solvency was much improved at June 30, 2018. The General Fund assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $611.2 million, and cash and investments totaled $643.4 million.[43] In FY 2013 the City's liabilities exceeded its assets by $73.0 million and it only had $102.2 million in cash and investments. The main reason for the General Fund's improved liquidity and solvency was the elimination of certain obligations from the bankruptcy. While the bankruptcy substantially reduced the City's obligations, especially legacy pension and retiree health costs, challenges and risks remain to secure the liquidity to fund the resources necessary to provide satisfactory City services such as public protection and transportation. The City's liquidity risk will continue until the changes adopted under the Plan of Adjustment are implemented effectively by the City over the long-term and other quality of life issues plaguing the City are also addressed satisfactorily.

[41] Mainly due to the bankruptcy eliminating legacy pension and hospitalization costs
[42] Pages 23 and 25 of the 2018 CAFR, Attachment I and Attachment II
[43] Page 22 of the 2018 CAFR and page 22 of the 2017 CAFR

	Cash and Investments	Fund Balance/Deficit
June 30, 2018	643,392,225	611,183,961
June 30, 2017	647,640,806	592,792,528
June 30, 2013	102,176,954	(72,980,749)

An additional cautionary note regarding General Fund liquidity is warranted. Although $643.4 million in General Fund cash and investments as of June 30, 2018 is sizable, the lion share of it is either obligated (there is $85 million due to other funds as of June 30, 2018), restricted (for instance there is $38.3 million in unspent exit financing bond proceeds as of June 30, 2018 that at some point will be spent) or assigned (for instance $62.3 million represents the budget reserve and another $103.3 million represents the pension payment going to the Retiree Protection Trust Fund as of June 30, 2018) to a specific purpose. As a result, available cash for discretionary spending is minimal[44].

General Fund Cash. In FY 2016 the OCFO classified restricted cash for the first time for cash that was restricted such as for debt service, grants, and escrow requirements.[45] A total of $171.0 million of restricted cash was included on the General Fund's balance sheet on June 30, 2018 compared to $130.5 million on June 30, 2017. The General Fund had $643.4 million of cash on June 30, 2018 which included $171.0 million of restricted cash compared to $647.6 million of cash on June 30, 2017 including the $130.5 million of restricted cash. In the questions section we ask the OCFO to explain why the restricted cash increased $40.5 million in FY 2018.

General Fund Property Taxes Receivable. The General Fund property taxes receivables were $19.2 million on June 30, 2018, a decrease of $61.1 million from the $80.3 million on June 30, 2017. In the questions section we are asking the OCFO to explain why these accounts declined so much.

General Fund Income Tax Assessments Receivable. Income tax assessments receivables on June 30, 2018 were $33.2 million less than on June 30, 2017. In the questions section we are asking the OCFO to explain why this account balance declined so much.

[44] Since June 30, 2018, the General Fund unassigned fund balance of $131.5 million has been significantly reduced. Council approved the FY 2019-20 budget which uses $117.6 million of the $131.5 million in General Fund unassigned fund balance: $73 million for blight remediation; $32.5 million for capital projects; and $12.1 million for risk management.

[45] Page 22 and 69 of the 2016 CAFR, Note 4

General Fund Allowance for Uncollectable Accounts. The allowance for uncollectable accounts on June 30, 2018 were $236.4 million, a decrease of $40.6 million from the $277.0 million on June 30, 2017. In the questions section we are asking the OCFO to explain why this account balance declined so much.

General Fund Advances to Other Funds. Advances to other funds were $13.0 million on June 30, 2018, an increase of $13.0 million from the zero balance on June 30, 2017. In the questions section we ask the OCFO to explain what these advances are and what is the plan to pay them back to the General Fund. We also ask why these advances were made without City Council approval.

General Fund Advances to Component Units. Advances to component units totaled $8.1 million on June 30, 2018. In the questions section we ask the OCFO to explain what these advances are and what is the plan for repayment to the General Fund. We also ask why these advances were made without City Council approval.

General Fund Due from Component Units. The Detroit Public Library owed the General Fund $3.2 million on June 30, 2018. In the questions section we are asking the OCFO to explain in detail what is owed and if the General Fund is subsidizing the Library. We also ask why this loan was made without City Council approval.

General Fund Due to Other Funds. The due to other funds was $67.6 million on June 30, 2018, a $28.7 million decrease from the $96.3 million on June 30, 2017. [46] In the questions section we are asking the OCFO to explain why the Due to Other Funds was so much less in FY 2018. Also, we are asking the OCFO to explain the $24.8 million owed to DDOT on June 30, 2018.

General Fund Chargebacks. For accounting purposes, the transfer of delinquent property taxes receivable to Wayne County is recognized as a sale, with a corresponding liability recorded for the estimated amount that will be charged back to the City. The amount owed to Wayne County for chargebacks is included in the line item due to other governmental agencies on the General Fund Balance Sheet. During the year ended June 30, 2018, the General Fund transferred (sold) to the County $30.3 million of delinquent property taxes receivable, and $12.4 million were charged back to the General Fund from prior year sales. As of June 30, 2018, the General Fund has recorded a liability of $3.1 million ($9.1 million estimated chargeback less $6.0 million auction receipts) for the estimated amount of property tax receivables sold to the County that will be charged back in future years.[47] The General Fund's liability for chargebacks due Wayne County on June 30, 2017 was $8.3 million. As the City's property tax collection rate and auction receipts improve, the chargeback liability decreases.

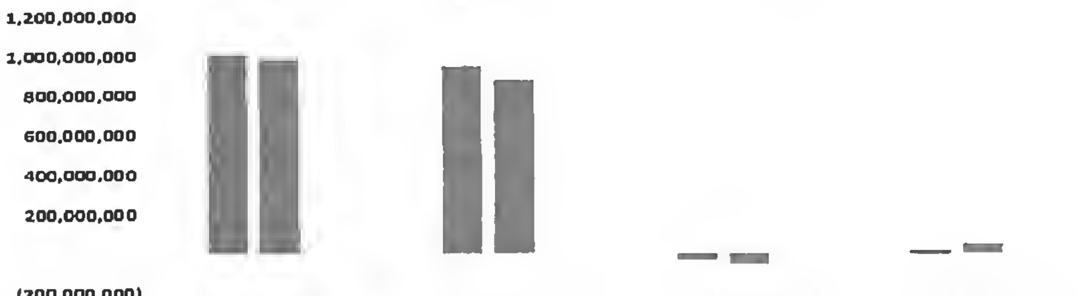
General Fund Deferred Inflows of Resources. The deferred inflows of resources was $211.1 million on June 30, 2018, a decrease of $49.7 million from the $260.8 million on June 30, 2017.[48] The $179.4 million future amount due from the DIA and Foundations per the "Grand Bargain" in the Plan of Adjustment cannot be recognized as revenue in the General Fund because they have not been received within 60 days of the end of the City's fiscal year per the

[46] Page 22 of the 2018 CAFR and page 22 of the 2017 CAFR
[47] Per City ERP documentation on General Fund Chargebacks
[48] Page 22 of the 2018 CAFR and page 22 of the 2017 CAFR

City's modified accrual basis of accounting.[49] Per the "Grand Bargain" annual amounts will be received by the General Fund through June 30, 2023. While they are accounts receivable, they are considered deferred inflows of resources and not recognized as revenue until actually received. The main reason for the decline in deferred inflows of resources was that unearned revenue declined $42.7 million. In the questions section we ask the OCFO to explain why the unearned revenue decreased $42.7 million in FY 2018.

General Fund Revenue and Expenditures. The following chart shows the General Fund's revenues, expenditures, and net change in fund balance for fiscal years 2018, 2017, and 2013.

General Fund Net Change in Fund Balance

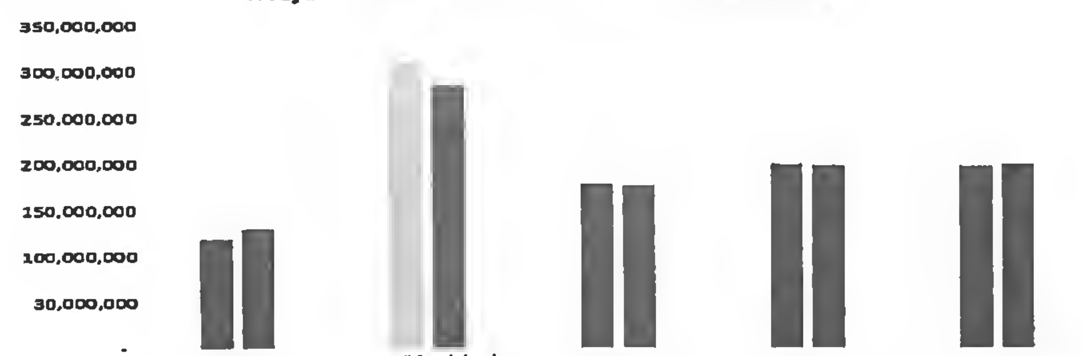


	Total Revenues	Total Expenditures	Other Financing Sources/(Uses)	Net Change in Fund Balance
June 30, 2018	1,005,999,069	950,589,073	(37,018,563)	18,391,433
June 30, 2017	988,938,222	880,310,267	(54,786,699)	53,841,256
June 30, 2013	1,043,313,518	791,309,747	(55,497,863)	196,505,908

The General Fund's total revenues increased $17.1 million in FY 2018 mainly due to increases in: (1) municipal income tax revenue; (2) federal and state grant revenues; (3) State shared revenue; and (4) other revenue. Explanations for these decreases are detailed below. The $18.4 million net change in fund balance for the year ended June 30, 2018 was the fourth straight year since the exit from bankruptcy that the General Fund had a positive amount.

The table below details the major sources of General Fund revenue for fiscal years 2018, 2017, and 2013.

Major Sources of General Fund Revenues



	Property Taxes	Municipal Income Taxes	Wagering Tax	Revenue Sharing	Other Revenue
June 30, 2018	119,137,004	310,205,258	178,982,277	199,899,929	197,774,601
June 30, 2017	129,532,472	284,467,414	177,217,497	197,831,755	199,889,084
June 30, 2013	132,755,307	248,017,356	174,599,992	183,058,520	304,882,343

[49] Page 45 of the 2018 CAFR, Measurement Focus and Basis of Accounting, Note I(c)

General Fund Property Tax Revenue. Property tax revenue was $119.1 million in FY 2018, a $10.4 million decrease from the FY 2017 amount of $129 5 million.[50] The decrease was mainly due to a reduction in collections. In the questions section we are asking the OCFO to explain the decrease in property tax revenue in FY 2018.

General Fund Municipal Income Tax. Municipal income tax revenue was $310.2 million for the year ended June 30, 2018, an increase of $25.7 million from the $284.5 million for the year ended June 30, 2017. The increase is due to the improved economy, better collection efforts and the transition of the administration of the City's income taxes to the State of Michigan.

General Fund Other Taxes and Assessments. Other taxes and assessments were $3.4 million for the year ended June 30, 2018, a $7.0 million decrease from the $10.4 million for the year ended June 30, 2017. In the questions section we are asking the OCFO to explain why this decreased in FY 2018.

General Fund Federal Grant Revenue. The Federal grant revenue was $2.8 million in FY 2018 and was $2.6 million more than the $.2 million in FY 2017.[51] In the questions section we are asking the OCFO why the federal grant revenue increased in FY 2018.

General Fund State Shared Revenue. The State shared revenue (revenue sharing) was $199.9 million for the year ended June 30, 2018, up $2.1 million from the prior year. This was due to the improved economy and State sales tax collections.

General Fund Sales and Charges for Services. The sales and charges revenue was $73.0 million in FY 2018, a $5.1 million decrease from the $78.1 million for FY 2017. In the questions section we are asking the OCFO to explain why this decreased in FY 2018.

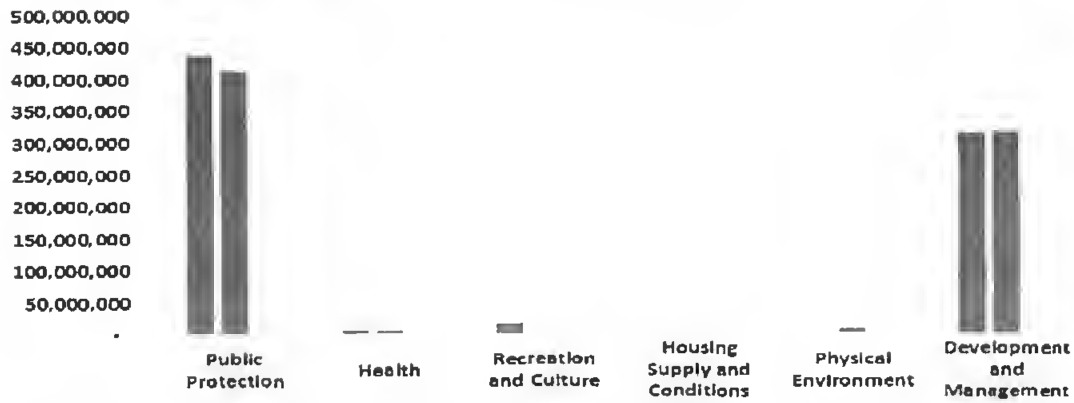
General Fund Ordinance Fines and Forfeitures. The Ordinance fines and forfeiture revenues were $21.2 million for the year ended June 30, 2018, a decrease of $2.3 million in FY 2018 from the prior year amount of $23.4 million. In the questions section we are asking the OCFO to explain why these revenues declined in FY 2018.

General Fund Other Revenue. Other revenue was $28.1 million in FY 2018, an increase of $5.1 million from the $23.0 million in FY 2017. In the questions section we are asking the OCFO to explain why this increased in FY 2018.

General Fund Expenditures. The table below details the major sources of General Fund expenditures for fiscal years 2018, 2017, and 2013.

[50] Page 25 of the 2018 CAFR and page 24 of the 2017 CAFR
[51] Page 25 of the 2018 CAFR and page 24 of the 2017 CAFR

General Fund Expenditure Detail



	Public Protection	Health	Recreation and Culture	Housing Supply and Conditions	Physical Environment	Development and Management
June 30, 2018	435,575,756	6,140,112	18,172,541	12,317,557	5,149,677	315,102,385
June 30, 2017	412,024,531	5,023,683	17,791,620	7,714,818	9,613,796	318,517,678
June 30, 2013	452,422,790	32,705,761	13,149,199	4,188,991	68,268,583	191,052,907

General Fund Public Protection Expenditures. Public protection expenditures were $435.6 million in FY 2018, an increase of $23.6 million from the $412.0 million in FY 2017. In the questions section we ask the OCFO to explain the increase in public protection expenses.

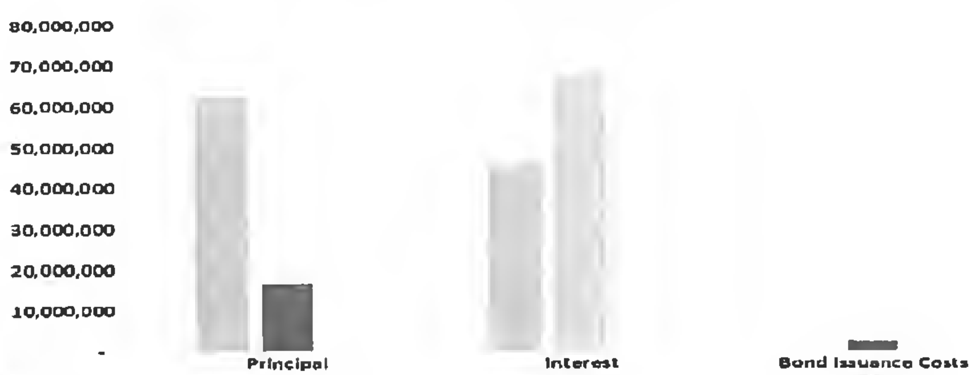
General Fund Housing Supply and Conditions Expenditures. Housing supply and conditions expenditures were $12.3 million in FY 2018, an increase of $4.6 million from the $7.7 million in FY 2017. In the questions section we ask the OCFO to explain the increase in housing supply and conditions expenses.

General Fund Physical Environment Expenditures. Physical environment expenses were $5.1 million in FY 2018, a decrease of $4.5 million from the $9.6 million in FY 2017. In the questions section we ask the OCFO to explain the deerease in physical environment expenses.

General Fund Development and Management Expenditures. The development and management expenses were $315.1 million in FY 2018, a $3.4 million decrease from the $318.5 million in FY 2017.

General Fund Debt Service. The following chart details the General Fund debt service for fiscal years 2018, 2017, and 2013.

General Fund Debt Service



	Principal	Interest	Bond Issuance Costs
June 30, 2018	62,335,378	45,875,155	136,000
June 30, 2017	16,614,797	68,126,894	2,526,983
June 30, 2013	-	2,570,598	1,612,046

General Fund Principal Expense. Principal Expense was $62.3 million in FY 2018, an increase of $45.7 million from the $16.6 million in FY 2017 The main reason for the increase was the $52.3 million redemption of the 2014 C bonds in FY 2018, which saved the City $11.7 million in interest expenses[52].

General Fund Interest Expense. Interest expense was $45.9 million in FY 2018, a $22.3 million decrease from the $68.1 million in FY 2017. Per the OCFO's responses to our questions last year the FY 2017 interest expense was higher is due to a one-time $19 million dollar deferred charge on the refunding that took place in August 2016, offset by actual interest savings.

General Fund Capital Outlay. Capital outlay was $49.3 million in FY 2018, a $26.9 million increase from the $22.4 million in FY 2017. In the questions section we are asking the OCFO to explain in detail why the Capital Outlays increased in 2018 and provide examples of significant outlays made.

General Fund Transfers In. General Fund Transfers In were $26.3 million in FY 2018 compared to zero in FY 2017. Transfers In from Nonmajor governmental funds were $926,936 and Transfers In from Nonmajor enterprise funds were $25.3 million. The $25.3 million Transfers In were from the Parking Fund and were related to the 2014 C Bonds, which were liquidated in FY 2018[53].

General Fund Proceeds. Proceeds from Bonds and Notes Issued in FY 2017 were much higher than in FY 2018 (no bonds and notes were issued during FY 2018) because of the refunding of the $345.5 million Limited Tax General Obligation (LTGO) First and Third Lien DSA Bonds (2012C Self Insurance Bonds - $ 116.0 million and 2010 DSA Bonds - $229.5 million) that occurred in FY 2017 from proceeds of $364.1 million (2016C (1) - $240,965,000 and 2016C (2) - $123,175,000 LTGO refunding bonds).[54]

General Fund Subsidies Included in Transfers Out. The General Fund subsidies in FY 2018 to the Transportation Fund, Airport and Public Lighting Authority were $55.2 million, $.9 million and $10.3 million, respectively. The General Fund subsidies in FY 2017 to the Transportation Fund, Airport, and Public Lighting Authority were $61.6 million, $3.0 million and $10.0 million, respectively.[55] These General Fund subsidies were budgeted in the City's FY 2018 General Fund budget approved by City Council.

General Fund Principal Paid to Bond Agents for Refunded Bonds. Principal paid for refunded bonds was $345.5 million in FY 2017 compared to $0 million in FY 2018. As discussed previously, this was for the refunding of the Limited Tax General Obligation First and Third Lien DSA Bonds.

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[52] Page V of the 2018 CAFR, Introduction to the Report
[53] Page 69 of the 2018 CAFR, Note 5
[54] Page 77 of the 2017 CAFR, Note 8 (b)
[55] Pages 69 and 174 of the 2018 CAFR and pages 67 and 173 of the 2017 CAFR

Financial Review Commission[56]

Michigan Public Act 181 of 2014, M.C.L. §§ 141.1631, *et seq.* (Act 181) established the Detroit Financial Review Commission (the "Commission") as of the Effective Date (December 10, 2014) to monitor the City's compliance with the Plan of Adjustment and Public Act 181 and to provide oversight of the City's financial activities. The Commission has broad authority to obtain and review the City's financial records on an ongoing basis, approve budgets and contracts, and conduct financial audits of the City. Michigan Public Act 182 of 2014, M.C.L. 117.4s-t, imposes further requirements, including that the City adopt a multi-year financial plan and appoint a chief financial officer (CFO).

On April 30, 2018, the City of Detroit exited active state financial oversight, achieving full self-governance for the first time in four decades. The FRC voted unanimously to end active oversight after the City delivered its third consecutive audited balanced budget[57].

The FRC will continue to exist for a 10-year term, although it will play no active role in the City of Detroit operations. The City will be required to submit monthly financial reports and will also submit its adopted budget and 4-year financial plan each year. So long as the City continues to balance its budgets and meet other basic financial fiscal requirements, the FRC will stay inactive for the rest of its existence.

The nature of the oversight is scaled back. The Commission must waive many of the requirements such as budget and contract approval on an annual basis. The Commission may rescind the waiver if it determines that there is a substantial likelihood that certain criteria will occur, including the City failing to pay debt when due, the City incurring a budget deficit in any year in excess of 5 percent of expenditures in that year, or the City failing to comply with the revised municipal finance act or to obtain the prior approval of the Commission to issue debt. If the Commission waives the requirements for 10 consecutive years, the Commission is dissolved[58].

Major Issues from the City's Government-Wide Financial Statements in the 2018 CAFR (Long-term perspective)

The government-wide financial statements are used to best assess local government's financial condition since their measurement focus is primarily long term. They include the Primary Government, Governmental and Business (Enterprise Funds) - Type Activities and Component Units of the City.

The government-wide financial statements are designed to provide a broad overview of the City's finances and operations, in a manner similar to a private sector business. They show how current services are funded and the full cost of the services provided. They answer the question "Did this year's taxpayer pay the full cost of the services delivered this year?" The financial statements include the Statement of Net Position (i.e., *balance sheet*), and the Statement of Activities (i.e., *income statement*). These statements are prepared using the economic resources measurement focus and accrual basis of accounting.

[56] Page 118 of the 2017 CAFR (Note 13)
[57] Page 115-116 of the 2018 CAFR
[58] Page 118 of the 2017 CAFR (Note 13)

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the City as a whole, and about its activities that should help answer this question: How has the City's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities. The Statement of Net Position presents all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the City's financial position is improving or eroding.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and, earned but unused vacation leave).

Attachments III and IV are respectively, the Primary Government's FY 2018 Statement of Net Position and Statement of Activities (Changes in Net Position) compared to FY 2017 and FY 2013. These statements show the City's Primary Government's financial condition: (1) pre-bankruptcy (FY 2013); and (2) post-bankruptcy (FY 2017 and FY 2018). The following analysis of Attachments III and IV provides details on the major issues and variances for the Primary Government's Government-Wide financial statements in the FY 2018 CAFR when compared to FY 2017 and FY 2013.

Primary Government's Statement of Net Position. At June 30, 2018, the City's primary government had a Net Position of $898.0 million, an $85.9 million increase from the $812.1 million Net Position on June 30, 2017. [59] The increase was mainly due to the $96.7 million decrease of the net pension liability and the $101.9 million gain from bifurcation from both the Water and Sewage disposal funds.

Primary Government Financial Results

	Assets & Deferred Outflows	Liabilities & Deferred Inflows	Unrestricted Surplus/ (Deficit)	Total Net Position
June 30, 2018	5,808,229,045	4,910,191,408	(958,884,343)	898,037,637
June 30, 2017	5,905,266,633	5,093,193,444	(1,184,661,604)	812,073,189
June 30, 2013	9,810,406,826	10,488,585 046	(2,355,364,693)	(678,178,220)

[5] Page 18 of the 2018 CAFR and Page 19 of the 2017 CAFR

The decreases in assets and liabilities from June 30, 2013 are mainly due to the bifurcation and transfer of the regional water and sewer systems' assets and liabilities to GLWA, which included \$5.1 billion of revenue bonds[60].

Bankruptcy Impact as of June 30, 2018. As can be seen in Attachments III and IV, the bankruptcy enabled the City to reduce its legacy pension and OPEB (retiree benefits) and debt costs. The net pension liability was \$2.918 billion in FY 2015 and was actually based on the amount due as of June 30, 2014, which was prior to the bankruptcy exit on December 10, 2014. The net pension liability post-bankruptcy on June 30, 2017 was \$1.560 billion or \$1.358 billion less due to the changes agreed to in the bankruptcy.

The City, since the bankruptcy, still has a large net pension liability and other large debt obligations which will be a challenge to the future fiscal health of the City. Furthermore, there are many other social and economic issues such as the education system, poverty levels, low property assessed values and low tax base that could impair the City's financial recovery if not satisfactorily addressed.

Primary Government Legacy Debt Burden

	Net Pension Liability	LTGO Debt	POCs	OPEB Liability (Asset)
June 30, 2018	1,560,912,703	1,410,379,361		(253,958)
June 30, 2017	1,657,601,189	1,493,230,412	-	(669,684)
June 30, 2013	3,128,446,017	540,280,000	1,451,905,000	996,493,347

The large net pension liability and LTGO (Limited Tax General Obligation) debt is of concern. While the bankruptcy reduced or eliminated pension, retiree health care (OPEB), and POC (Pension Obligation Certificate) long-term debt, the City still has substantial obligations for the legacy pension and LTGO debt. The LTGO debt increased due to the exit financing and other debt issued per the City's Plan of Adjustment. This debt will mostly be paid from the revenues of the General Fund which will leave less funding available for City services. The LTGO debt was reduced in 2018 due to the redemption of \$52.3 million in principal due on the 2014 C bonds, which saved the City \$11.7 million in interest expenses[61]. The chart below shows that the net pension liability and LTGO debt are 32% and 29% of the primary government's total liabilities of \$4.9 billion on June 30, 2018. A financially healthy government would have no or very small percentages of total liabilities for such legacy costs.

[60] Page 122 of the 2016 CAFR
[61] Page V of the 2018 CAFR, Introduction to the Report

Primary Government Legacy Obligations Compared to All Other Obligations

Primary Government's Unrestricted Net Position. The primary government's unrestricted net position was a deficit of $958.9 million as of June 30, 2018, a $225.8 million decrease from the $1.185 billion deficit at June 30, 2017 and $1.396 billion decrease from the $2.4 billion deficit on June 30, 2013.[62] A deficit in unrestricted net position means there was a shortage of assets available to meet all the City's obligations if they were immediately due and payable on June 30, 2018. The City's legacy debt and pension liabilities are major contributors to the deficit.

Retiree Protection Fund. Under the City's bankruptcy plan of adjustment, the City's required pension contributions to its legacy plans are based on a fixed schedule through FY 2023. Beginning in FY 2024, the City's required pension contributions to its legacy plans will be based on a funding policy to be established by the Retirement Systems to amortize the remaining unfunded actuarial accrued liabilities of each legacy plan. Under these requirements, the City's General Fund required contributions increase from zero in FY 2023 to an actuarially determined annual amount beginning in FY 2024. To meet this challenge, the City developed and began executing a funding strategy during 2017. Under the strategy, the City will contribute $335 million to the newly established Retiree Protection Fund (RPF) through FY 2023 to build up trust assets that will be used to partially offset the City's required pension plan contributions that resume in FY 2024[63]. This process allows the City to gradually build up its capacity to meet the annual required pension contributions from its General Fund budget. The RPF is an irrevocable IRC Section 115 trust established in August 2017 under new legislation adopted by the City. Each year, the City will continue revising its funding plan as new information becomes available in conjunction with the annual budget and planning process[64]. In fiscal year 2016, the City began to set aside funds ($30 million in 2016 and $60 million in 2017) in a restricted fund for application to a portion of its annual General Fund contribution obligation to the pension plans

[62] Page 19 of the 2018 CAFR and Page 19 of the 2017 CAFR

[63] Page 112 of the 2018 CAFR Note 12; (1) $90 million reserved in FY 2016 and FY 2017); (2) $15 million appropriated and reserved in FY 2018; (3) $170 million planned for FY 2019 to FY 2022; and (4) $60 million added in FY 2023

[64] Page iv of the 2018 CAFR

beginning in fiscal year 2024 to allow the City to better manage its liability at that time.[65] The balance of the RPF on June 30, 2018 was $103.3 million.

Primary Government's Cash and Investments. The City's cash and investments were $1.24 billion on June 30, 2018, a $116.3 million increase from the $1.12 billion on June 30, 2017.[66] The increase was mainly due to the bankruptcy impact which reduced legacy expenses, increased cash through borrowing (e.g., exit financing) and improved liquidity.

Primary Government's Advance to Component Unit. The advance due from component units totaled $8.1 million on June 30, 2018. The advance to the Detroit Land Bank Authority (DLBA) was $7.0 million in FY 2018.[67] The DLBA's financial statements indicate it was an advance ("bridge funds") for the Hardest Hit Fund demolitions until the grant funds are received and the City can be reimbursed from MSHDA. The City has granted the DLBA a $20.0 million line of credit. The advance to the Detroit Public Library (DPL) totaled $1.1 million on June 30, 2018. This was for the DPL's share of the 2014 C Bonds redeemed by the General Fund in 2018.

Primary Government's Receivable from GLWA. The receivable from GLWA was $1.09 billion on June 30, 2018.[68] The receivable was for the present value of the $50.0 million annual lease payment due over the next 39 years per the City's final agreement with GLWA. The annual lease payment from GLWA to the Water Fund is $22.5 million and the present value of the receivable from GLWA on June 30, 2018 was $485.7 million. The annual lease payment from GLWA to the Sewage Disposal Fund is $27.5 million and the present value of the receivable from GLWA on June 30, 2018 was $606.5 million[69].

Primary Government's Capital Assets. Total primary government capital assets were $2.82 billion on June 30, 2018, a $31.4 million decrease from the $2.85 billion on June 30, 2017[70]. Major capital assets acquired and projects completes or in progress during the year ended June 30, 2018 included the following:[71]

- $39.9 million for road construction and resurfacing
- $12.8 million for renovation of parks and recreation centers
- $16.9 million for police and fire department capital improvements
- $35 million for police, fire and department of public works (DPW) vehicles
- $3.6 million for DPW facility improvements

Primary Government Capital Asset Impairment. During the year, the City entered into a land swap agreement with a third party. The net book value of the land and building provided exceeded the fair market value of the land and or proceeds received. The land and property provided in the land swap was vacated by all fund employees in 2018 and, as a result, management determined that an impairment event had occurred. The Transportation Fund

[65] Page 119 of the 2016 CAFR, Note 13 and page 22 of the 2017 CAFR (Assigned Fund Balance for Pension)
[66] Page 18 of the FY 2018 CAFR and Pages 19 of the 2017 CAFR
[67] Page 18 of the 2018 CAFR
[68] Page 18 of the 2018 CAFR
[69] Page 27 of the 2018 CAFR
[70] Page 18 of the 2018 CAFR and page 19 of the 2017 CAFR
[71] Page 15 of the 2018 CAFR, MD&A

recognized impairment expenses of $2,107,426 and presented the impairment as an operating expense on the statement of revenue expense and changes in net position.[72]

Primary Government's Deferred Outflows of Resources. The deferred outflows of resources decreased $122.3 million in FY 2018 from the prior year mainly due to the net difference between projected and actual earnings on pension plan investments and differences between expected and actual experience for both the GRS and PFRS pension systems[73]. In the questions section we are asking the OCFO to explain why this decreased in FY 2018. Deferred outflows of resources, represents a consumption (expense) of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows on June 30, 2018 for the two pension funds were based on a measurement date of June 30, 2017 and the pension contributions received subsequent to the measurement date even though received in FY 2018 will be recognized as an expense and reduction of the net pension liability in the year ended June 30, 2019.[74]

Primary Government's Accounts and Contracts Payable. Accounts and contracts payable were $125.1 million on June 30, 2018, a $29.7 million increase from the $95.4 million balance on June 30, 2017. In the questions section we are asking the OCFO to explain the increase.

Primary Government's Due to Other Governmental Agencies. Due to other governmental agencies was $87.1 million on June 30, 2018, a $77.8 million decrease from the $164.8 million on June 30, 2017. In the questions section we are asking the OCFO to explain why the due to other governmental agencies decreased so much in FY 2018 and whether escheatments were made from this account.

Primary Government's Net Pension Liability. The primary government's net pension liability on June 30, 2018 was $1.56 billion (GRS - $757.5 million and PFRS - $803.4 million), a $96.7 million decrease from the $1.66 billion (GRS $790.9 million and PFRS - $866.7 million) on June 30, 2017. The primary government's $1.56 billion net pension liability in the June 30, 2018 CAFR's Statement of Net Position is based on the actuarial report dated June 30, 2017.[75] The Police and Fire Retirement System (PFRS) and General Retirement System (GRS) Legacy Pension Plans (Component II) and the new pension plan (Component I) are detailed in Footnote 8 of the FY 2018 CAFR.[76] GLWA and the Library respectively have $179.0 million and $17.4 million of the total net pension liability of $953.9 million for the City's GRS Component I and II pension plans. The GRS legacy Component II pension plan was 67.57% funded as of June 30, 2017[77].

[72] Page 74 of the 2018 CAFR
[73] Pages 18 and 96 (Note 8) of the 2018 CAFR and page 98 of the 2017 CAFR
[74] Pages 96-97 of the 2018 CAFR, Note 8(g)
[75] Pages 18, 93 and 94 of the 2018 CAFR
[76] Pages 88-101 of the 2018 CAFR
[77] Page 126 of the 2018 CAFR.

GRS Component II Legacy Pension Plan Funding As of June 30, 2017

The PFRS legacy Component II pension plan was 77.92% funded as of June 30, 2017.[78]

PFRS Component II Legacy Pension Plan Funding As of June 30, 2017

The decrease in the net pension liability was due to improved investment returns on assets of both the GRS and PFRS pension plans in FY 2017[79]. The net pension liability is summarized below by retirement system plan and by City reporting category.

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[78] Page 126 of the 2018 CAFR

[79] The GRS Pension and Police and Fire Pension Plans investment rate of return net of fees and expenses were 14.1% and 12.0%, respectively for the year ended June 30, 2017 per the FY 2018 Pension Financial Statements (Page 10 GRS and Page 9 PFRS).

	GRS Comp II	GRS Comp I	PFRS Comp II	PFRS Comp I	Total
Governmental Activities	$ 469,744,320	1,989,559	828,163,826	(24,778,056)	1,275,119,649
DDOT	195,425,991	2,957,887			198,383,878
Water	44,571,844	2,376,870			46,948,714
Sewer	31,035,107	1,583,072			32,618,179
Airport	1,050,562	3,891			1,054,453
Parking	6,733,145	54,685			6,787,830
Total Primary Government Net Pension Liability	748,560,969	8,965,964	828,163,826	(24,778,056)	1,560,912,703
Library	16,606,375	795,296			17,401,671
GLWA	178,961,907	-			178,961,907
Total Net Pension Liability All City Retirement Systems	$ 944,129,251	9,761,260	828,163,826	(24,778,056)	1,757,276,281

The net pension liability significantly decreased from the $3.128 billion on June 30, 2013. However, it is still substantial and will consume large amounts of General Fund revenues in the future leaving less for City services such as public protection. The graph below shows the net pension liability for both the GRS and PFRS legacy (Component II) pension systems for fiscal years 2018, 2017, and 2013[80].

Legacy Pension Plan Net Pension Liability

	GRS Legacy Net Pension Liability	PFRS Legacy Net Pension Liability
June 30, 2018	944,129,251	828,163,826
June 30, 2017	992,880,646	859,215,397
June 30, 2013	2,209,515,597	918,930,420

During November 2015, the actuary for each of the plans revised the calculation of the Unfunded Actuarial Accrued Liabilities (UAAL) for the frozen plans using updated mortality tables and other assumptions The effect of the revised calculations was to increase the UAAL for the frozen plans by approximately $491 million. Beginning in 2024, the Plan of Adjustment assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of $111 million beginning in fiscal year 2024. Based on the revised calculations, as

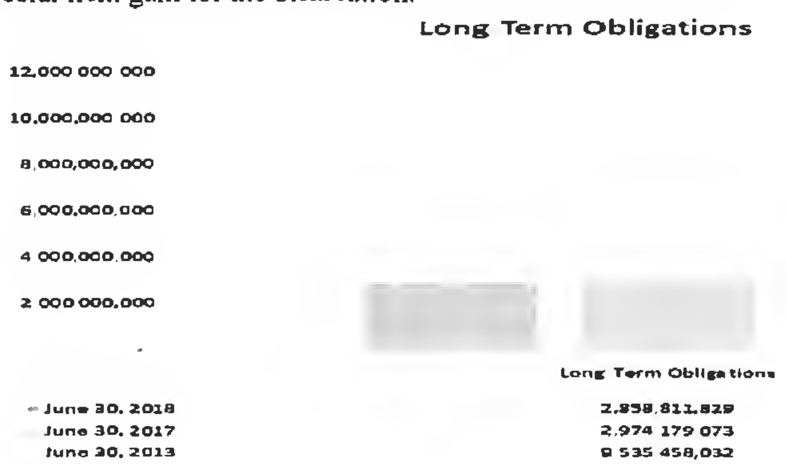
[80] The FY 2013 net pension liability of $3,128,446,017 (GRS - $2,209,515,597 and PFRS - $918,930,420) billion is from the FY 2015 CAFR page 99 of Note VII (f). In FY 2013, GASB 68 net pension liability reporting was not required. However, we are including it here for comparison purposes to show the reductions resulting from the Plan of Adjustment. In FY 2014 the net pension totaled $2,918,025,938 (GRS - $1,786,441,192 and PFRS $1,131,584,746).

of November 2015, the General Fund contribution was projected to be $194 million per year. In fiscal year 2016, the City began to set aside funds ($30 million in 2016 and $60 million in 2017) in a restricted fund - Retirement Protection Fund (RPF) for application to a portion of its annual General Fund contribution obligation to the plans beginning in fiscal year 2024 to allow the City to better manage its liability at that time.[81] On June 30, 2018 the balance of the RPF was $103.3 million. The latest estimate of the General Fund contribution for FY 2024 is $150 million based on the June 30, 2016 actuarial valuation.[82]

The pension plan fiduciary net position as a percentage of total Pension liability (i.e., unfunded liability) for the City's four pension plans as of June 30, 2017[83] are detailed below.

Pension Plan	FY 2017 Percentage Funded	FY 2016 Percentage Funded
PFRS Component II Legacy	77.9%	77.5%
PFRS Component I New	136.1%	84.9%
GRS Component II Legacy	67.6%	66.1%
GRS Component I New	86.6%	73.8%

Primary Government's Long-Term Obligations. Total primary government long-term obligations were $2.86 billion at June 30, 2018, a decrease of $115.4 million from the $2.97 billion at June 30, 2017.[84] The long-term obligations decreased mainly due to the $58.9 million ($38.7 million Water and $20.2 million Sewer) million decrease in contractual obligations to GLWA[85] and the redemption of the $52.3 million of 2014 C bonds. Part of the decrease in contractual obligations to GLWA was due to the 2018 agreement between GLWA and DWSD on the debt allocation, resulting in reductions of $26.7 million and $9.0 million to the debt allocated for the Water Fund and Sewage Disposal Fund, respectively. The reductions to the debt allocation for the Water and Sewage Disposal Funds are included in the $101.9 million special item gain for the bifurcation.[86]



[81] Page 119 of the 2016 CAFR, Note 13
[82] Pages 111-112, Note 12 of the 2018 CAFR
[83] Pages 126-127 of the 2018 CAFR and Pages 128-129 of the 2017 CAFR
[84] Page 18 of the 2018 CAFR and page 19 of the 2017 CAFR
[85] Pages 75-76 of the 2018 CAFR and pages 18-19 of the FY 2018 City of Detroit Water and Sewerage Department's Financial Statements (Note 5)
[86] Page 19, Note 5 of the DWSD financial statements

As mentioned previously, the decreases in long-term obligations from June 30, 2013 are mainly due to the bifurcation and transfer of the regional water and sewer systems' assets and liabilities to GLWA, which included $5.1 billion of revenue bonds[87]. Also, the reductions in retiree health care (OPEB) and POCs resulting from the bankruptcy contributed to the decrease in long-term obligations from 2013.

City Debt Ratings. As of June 30, 2018, the City's debt has the following ratings[88]

	Date of Rating	Rating Agency	Rating	Action
Series 2016 C1 Distributable State Aid bonds - First Lien LTGO	12/15/2017	Moody's	Aa2	No Change
Series 2016 C2 Distributable State Aid bonds - Third Lien LTGO	12/15/2017	Moody's	Aa2	Moody's investors Service withdrew the previous rating of A1 and assigned a rating of Aa2 to all DSA City Issuances
Series 2016 C3 Distributable State Aid bonds - Fourth Lien UTGO	12/15/2017	Moody's	Aa2	Moody's investors Service withdrew the previous rating of A1 and assigned a rating of Aa2 to all DSA City Issuances
Series 2016 C4 Distributable State Aid bonds - Fourth Lien UTGO	12/15/2017	Moody's	Aa2	Moody's investors Service withdrew the previous rating of A2 and assigned a rating of Aa2 to all DSA City Issuances
Series 2010 E Distributable State Aid bonds - Second Lien	12/15/2017	Moody's	Aa2	Moody's investors Service withdrew the previous rating of Aa3 and assigned a rating of Aa2 to all DSA City Issuances
City of Detroit Issuer Rating	5/23/2018	Moody's	Ba3	Moody's investors Service has upgraded Detroit's Issuer rating to Ba3 from B1

The City's credit ratings on uninsured general obligation bonds as of June 30, 2018 were

Moody's Investor Service, Inc	Ba3
Standard & Poor's Corporation	B-[89]

City debt ratings have improved because of the improved financial condition of the City and the revenues securing the payment of the debt. The City credit ratings for the uninsured general obligation bonds are below investment grade due to weakness in Detroit's economic base relative to its peers. Because of the credit rating below investment grade the City will have higher borrowing costs.[90]

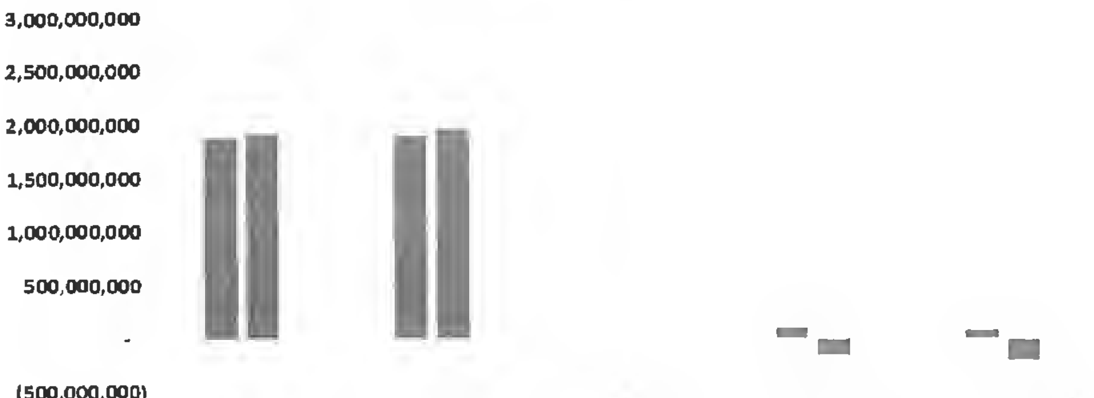
Primary Government's Deferred Inflows of Resources. Deferred inflows of resources were $21.2 million on June 30, 2018. an increase of $14.5 million from the $6.7 million on June 30, 2017.[91] Deferred inflows of resources, represents an acquisition (Asset) of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows of resources from pensions result from three transactions: the variance between the plans' actual investment earnings compared to the plans' assumed investment earnings, the variance between the plans' actual experience compared to the plans'

[87] Page 122 of the 2016 CAFR
[88] Page 88 of the 2018 CAFR, Note 7
[89] Page 15 of the 2018 CAFR, MD&A
[90] Ibid
[91] Page 18 of the 2018 CAFR and page 19 of the 2017 CAFR

assumed experience, and changes in assumptions.[92] In the questions section we are asking the OCFO to explain why the deferred inflows of resources increased in FY 2018.

Primary Government Change in Net Position. The chart below details the primary government's change in net position for fiscal years 2018, 2017, and 2013 (Attachment IV). As discussed previously, the change in net position in FY 2018 was an $86.0 million surplus because of the decrease in the net pension liability and the bifurcation gain for the Water and Sewerage Disposal Funds.

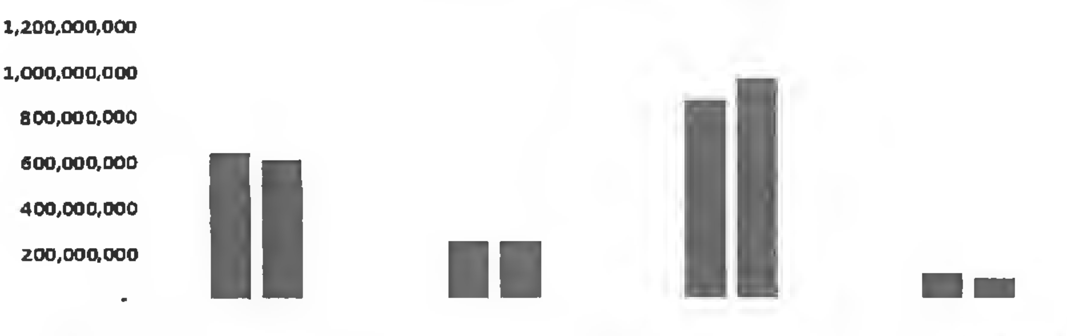
Primary Government Change in Net Position



	Total Revenue	Total Expenditures	Pension Recovery	Special Item - Bifurcation	Change in Net Position
June 30, 2018	1,880,940,056	1,896,835,532	-	101,859,924	85,964,448
June 30, 2017	1,914,384,812	1,967,189,817	-	(157,954,520)	(210,759,525)
June 30, 2013	2,177,287,096	2,483,491,411	-	-	(306,204,315)

Primary Government's Revenues. The chart below details the primary government's major revenues for fiscal years 2018, 2017, and 2013 and shows the sources of some of the City's main revenues.

Primary Government Revenues



	Charges for Services	Grants	Taxes	Other Revenue
June 30, 2018	644,995,291	251,983,780	872,717,136	111,243,849
June 30, 2017	611,237,538	247,578,505	965,455,039	90,113,730
June 30, 2013	1,124,725,171	313,209,098	855,234,416	(115,881,589)

[92] Page 47 and pages 106-107 of the 2016 CAFR

Primary Government's Charges for Services. The charges for services revenue was $645.0 million on June 30, 2018, an increase of $33.8 million from the $611.2 million on June 30, 2017.[93] Detailed below is a comparison of the various charges for services for FY 2018 and FY 2017.

	FY 2018	FY 2017	Difference
Public Protection	82,142,006	87,794,040	(5,652,034)
Health	2,543,252	2,981,002	(437,750)
Recreation and Culture	2,097,986	859,989	1,237,997
Economic Development	6,581,729	669,987	5,911,742
Housing supply and Conditions	-	2,386,191	(2,386,191)
Physical Environment	44,307,433	33,804,805	10,502,628
Transportation Facilitation	3,728,872	4,204,012	(475,140)
Development and Management	42,238,300	46,510,771	(4,272,471)
Water	115,019,869	108,174,791	6,845,078
Sewer	291,130,813	273,687,927	17,442,886
Transportation	29,236,816	21,285,572	7,951,244
Automobile Parking	12,013,301	14,795,766	(2,782,465)
Airport	619,190	701,032	(81,842)
Public Lighting Authority	13,335,724	13,381,653	(45,929)
	644,995,291	611,237,538	33,757,753

The following had significant changes for charges for services revenue: (1) public protection -$5.7 million; (2) recreation and culture $1.2 million; (3) economic development $5.9 million; (4) housing supply and conditions -$2.4 million; (5) physical environment $10.5 million; (6) transportation (DDOT) $8.0 million; (7) parking -$2.8 million. In the questions section we are asking the OCFO to explain these major changes in the charges for services revenues for FY 2018. Water and Sewer revenues were up in FY 2018 due to fee increases.

Primary Government's Property Tax Revenue. The property tax revenue was $159.1 million for the year ended June 30, 2018, an $89.1 million decrease from the $248.3 million for the year ended June 30, 2017. In FY 2017 the property taxes included $35.3 million for delinquent accounts receivable that were deemed collectable and $20.8 million for solid waste fee revenue. Also, property tax collections declined in FY 2018 because of the reduction in assessments. In the questions section we are asking the OCFO to explain the decrease in property tax revenue.

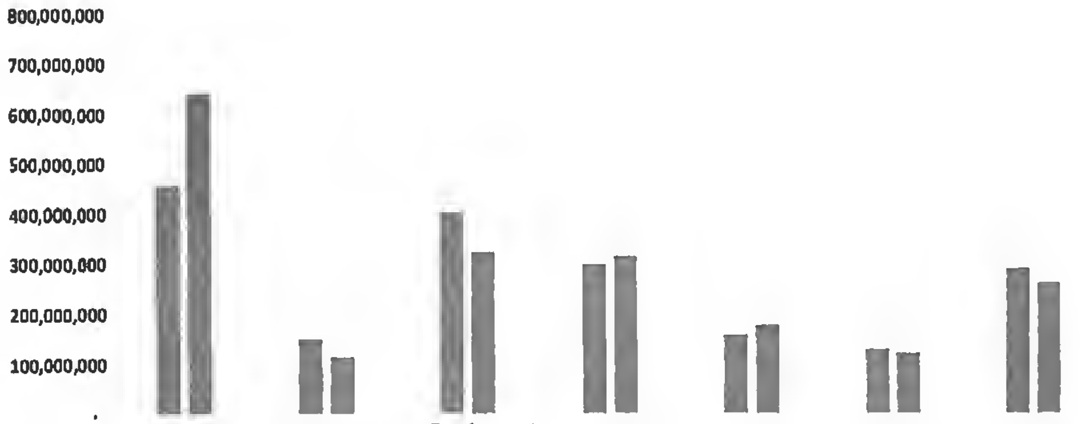
Primary Government's Other Local Taxes. Other local taxes were $6.6 million for the year ended June 30, 2018, a $7.4 million decrease from the $14.0 million for the year ended June 30, 2017 In the questions section we are asking the OCFO to explain the decrease in other local taxes in FY 2018

Primary Government's Miscellaneous Revenue. Miscellaneous revenue was $94.8 million for the year ended June 30, 2018, a $19.3 million increase from the $75.5 million for the year ended June 30, 2017. In the questions section we are asking the OCFO to explain the increase in miscellaneous revenue for FY 2018.

[93] Pages 20-21 of the 2018 CAFR and pages 20-21 of the 2017 CAFR

Primary Government's Expenditures. The chart below details the primary government's major Expenditures for fiscal years 2018, 2017, and 2013 and shows the major programs that the City expends funds for.

Primary Government Expenses



	Public Protection	Physical Environment	Development and Management	Sewage	ODOT	Water	Other
June 30, 2018	459,155,038	152,794,269	403,929,393	300,112,413	158,602,192	130,123,421	292,118,806
June 30, 2017	643,746,962	116,733,180	325,937,109	314,993,258	178,551,373	122,932,303	264,295,632
June 30, 2013	694,708,112	121,192,467	205,937,823	523,909,799	166,024,287	398,086,572	364,799,672

Primary Government's Public Protection Expenses. Public protection expenses were $459.2 million in FY 2018, a $184.5 million decrease from the $643.7 million amount in FY 2017. In the questions section we are asking the OCFO to explain why public protection expenses decreased so much in FY 2018.

Primary Government's Recreation and Culture Expenses. Recreation and culture expenses were $37.4 million, a $7.5 million increase from the $29.9 million in FY 2017. In the questions section we are asking the OCFO to explain why recreation and culture expenses increased so much in FY 2018.

Primary Government's Housing and Supply Conditions Expenses. Housing and supply conditions expenses were $25.0 million in FY 2018, an increase of $15.2 million from the $9.8 million in FY 2017. In the questions section we are asking the OCFO to explain why the housing and supply conditions expenses increased so much in FY 2018.

Primary Government's Physical Environment Expenses. Physical environment expenses were $152.8 million in FY 2018, a $36.1 million increase from the $116.7 million amount in FY 2017. In the questions section we are asking the OCFO to explain why physical environment expenses increased in FY 2018.

Primary Government's Development and Management Expenses. Development and Management expenses were $403.9 million in FY 2018, an increase of $78.0 million from the $325.9 million in FY 2017. In the questions section we are asking the OCFO to explain why development and management expenses increased so much in FY 2018.

Primary Government's Interest on Long-term Debt. Interest on long-term debt was $62.5 million in FY 2018, a $29.1 million decrease from the $91.6 million in FY 2017. In the questions section we ask the OCFO to explain why the interest on long-term debt decreased so much in FY 2018.

Primary Government's Sewage Disposal Expense. Sewage disposal expense was $300.1 million in FY 2018, a $14.9 million decrease from the $315.0 million in FY 2017. In the questions section we ask the OCFO to explain why sewage disposal expense decreased in FY 2018.

Primary Government's Transportation Expense. Transportation expense was $158.6 million in FY 2018, a $19.9 million decrease from the $178.6 million in FY 2017. In the questions section we ask the OCFO why the transportation expense decreased so much in FY 2018.

Primary Government's Water Expense. Water expense was $130.1 million in FY 2018, an increase of $7.2 million from the $122.9 million in FY 2017. In the questions section we ask the OCFO to explain the increase in the water expense in FY 2018.

Primary Government's Automobile Parking Expenses. Automobile parking expenses were $29.5 million in FY 2018, an increase of $19.2 million from the $10.3 million in FY 2017. Parking had a $21.1 million loss on the sale of assets (Premier garage). In the questions section we are asking the OCFO to explain why the automobile parking expense increased so much in FY 2018.

Primary Government's Public Lighting Authority Expense. The public lighting authority expense was $21.1 million in FY 2018, an increase of $4.8 million from the $16.3 million in FY 2017. In the questions section we are asking the OCFO to explain why increased in FY 2018.

CITY'S LONG-TERM OBLIGATIONS POST-BANKRUPTCY. The bankruptcy exit provides the City relief from legacy costs mainly OPEB and pension obligations. However, LPD provides the following observations:

- While the City eliminated a substantial amount of its obligations with the bankruptcy settlements, it did incur additional debt to provide for some of the settlements and restructuring/Quality of Life projects. Much of the new debt such as the 2014 B(1) and B(2) bonds was limited tax general obligation (LTGO) debt and will have to be paid from the general revenues of the City. This along with other "secured" LTGO bond debt issued before the bankruptcy will divert the City's General Fund's revenues, which could have been used for core City services such as police and fire, to pay off the debt service. Of the City's primary government's $1.68 billion of General Obligation bond debt at June 30, 2018[94], a total of $1.41 billion[95] is LTGO debt which will ultimately have to be paid from the general revenue. Furthermore, much of the debt issued for the bankruptcy settlements was structured to defer principal payments for several years and will have a greater adverse impact on the General Fund in the years (2025-2030) the principal

[94] Pages 75-76 of the 2018 CAFR, Note 7
[95] Pages 80-81 of the 2018 CAFR

becomes due. For example, the City is not required to make a payment on the 2014 B (1) bonds principal totaling $616.6 million until June 30, 2025 when the first principal payment will be $30.8 million[96].

- The OCFO has taken commendable steps to reduce the LTGO debt and gross debt service for fiscal years 2025-2030 by redeeming certain bond obligations. In FY 2018, the OCFO redeemed $52.3 million of the 2014 C bonds with surplus funds. Recently (FY 2019), on December 13, 2018, the City issued its $176 million Distributable State Aid Fifth Lien Financial Recovery Refunding Bonds (LTGO) Series 2018 Bonds (the "2018 DSA Bonds") for the purpose of purchasing a portion of its Financial Recovery Bonds, Series 2014 B (1) and its Financial Recovery Bonds, Series 2014 (2) (together, the "Financial Recovery Bonds, Series 2014 B") and paying the costs of issuance associated with the 2018 DSA Bonds. The 2018 DSA Bonds are secured by a pledge of the City's Distributable State Aid (i.e., State Revenue Sharing) on a statutory fifth lien priority basis and a pledge of the limited tax full faith and credit of the City.[97]

- In addition, on December 13, 2018, the City purchased and canceled, at a discount from par, $197.6 million of its Financial Recovery bonds, Series 2014 B ($192.2 million Series 2014 B (1) at a purchase price of $87 per $100 in principal amount and $5.4 million Series 2014 B (2) at a purchase price of $85 per $100 in principal amount) in exchange for the proceeds from the 2018 DSA Bonds noted above. Lastly on December 13, 2018, the City deposited into escrow funds to redeem $3.1 million of its Financial Recovery Income Tax Revenue and Refunding Bonds, Series 2014-B. The redemption is scheduled to occur on January 22, 2019.

- The OCFO estimates the debt service on LTGO bonds for FY 2025-2030 will be reduced by $155 million because of the above debt issuances. Debt service beginning in fiscal year 2025 would have increased by approximately $31 million per year through fiscal year 2030 in absence of these transactions. In addition, to the reduced debt service, the City will also save approximately $21.7 million ($11.7 million interest savings on 2014 C Bonds and $10 million on 2014 B(1) and 2014 B(2) Bonds) as a result of these transactions.[98]

- On December 10, 2018, the City issued $135,000,000 Unlimited Tax General Obligation Bonds, Series 2018 for the purpose of financing the cost of certain capital projects of the City and paying cost of issuance associated with the 2018 UTGO Bonds. The 2018 UTGO Bonds are secured by the debt millage on City property taxes. The 2018 UTGO Bonds are tax exempt and mature on April 1, 2038.[99]

- Also, pension obligations have only been reduced and not eliminated even though the City's required contributions are limited by the Plan of Adjustment through June 30, 2023. After June 30, 2023, the City will have significant annual obligations to fund pensions, especially if the Net Pension Liability is not significantly reduced by then.

[96] April 21, 2017 letter from the City to the Financial Review Commission (FRC), "City of Detroit Debt Service Requirements and Certification FY 2017 Quarter 3"
[97] Page 117 of the 2018 CAFR, Note 14 - Subsequent Events
[98] Page 118 of the 2018 CAFR, Note 14 - Subsequent Events
[99] Page 117 of the 2018 CAFR, Note 14 Subsequent Events

Beginning in 2024, the Plan of Adjustment assumed that the UAAL would be funded over 30 years and projected an annual General Fund contribution of $111 million beginning in fiscal year 2024. Based on the latest actuarial valuation as of June 30, 2016, the anticipated General Fund contributions starting in FY 2024 are projected to be $150 million[100]. As mentioned previously, the OCFO has taken action to mitigate the pension required contributions in 2024 by setting aside $103.3 million in the Retirement Protection Trust Fund as of June 30, 2018.

- **Legacy GRS Pension System Payout Ratio.** The General Retirement System (GRS) Legacy Pension Fund (Component II) had total expenditures of $258.3 million for the year ended June 30, 2018[101]. The total Net Position of the fund was $1.953 billion at June 30, 2018[102], a decrease of $25.4 million from the prior year.[103] The GRS Legacy Pension Fund has a high payout ratio (1:7.6) compared to its net position, meaning if GRS pension expenditures continue at this rate, total GRS pension net position would be depleted in approximately seven years and six months. The Net Pension Liability to the GRS Legacy Pension Fund was $944.1 million as of June 30, 2017.[104] The City's pension obligations are a burden that have to be closely monitored.

- **PFRS Pension System Payout Ratio.** The Police and Fire Retirement (PFRS) Legacy Pension Fund had total expenditures of $313.4 million for the year ended June 30, 2018.[105] The total Net Position of the fund was $2.871 billion at June 30, 2018, a $55.5 million decrease from the prior year.[106] The PFRS Legacy Pension Fund has a lower payout ratio (1:9.2, meaning the total PFRS pension net position would be depleted in approximately nine years and two months at this rate of PFRS pension expenditures) than the GRS but it is still of concern. The City's Net Pension Liability to the PFRS Legacy Pension Fund was $828.2 million as of June 30, 2017.[107]

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[100] Page 111 of the 2018 CAFR, Note 12, Pension Settlements

[101] GRS (Component II) "total expenditures" is synonymous with "total deductions" on Page 180 of the 2018 CAFR

[102] Page 180 of the 2018 CAFR

[103] Page 180 of the 2018 CAFR and 179 of the 2017 CAFR

[104] Page 94 of the 2018 CAFR Per page 93 of the 2018 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2017 as its measurement date for the net pension liability (asset) for its fiscal year 2018 financial statements The net pension liability (asset) was calculated using the total pension liability and the Systems' fiduciary net position as of June 30, 2017. The June 30, 2017 total pension liability was determined by an actuarial valuation performed as of June 30, 2016, which updated procedures to roll forward the estimated liability to June 30, 2017 In questions section of the report LPD asks the OCFO why wasn't the GRS net pension liability figure of $832.7 million per the GRS 2018 audit report used in the City's 2018 CAFR.

[105] PFRS (Component II) "total expenditures" is synonymous with "total deductions" on Page 180 of the 2018 CAFR

[106] Page 180 of the 2018 CAFR and 179 of the 2017 CAFR

[107] Page 94 of the 2018 CAFR Per page 93 of the 2018 CAFR, as permitted by GASB No. 68, the City has chosen to use June 30, 2017 as its measurement date for the net pension liability (asset) for its fiscal year 2018 financial statements. The net pension liability (asset) was calculated using the total pension liability and the Systems' fiduciary net position as of June 30, 2017. The June 30, 2017 total pension liability was determined by an actuarial valuation performed as of June 30, 2016, which updated procedures to roll forward the estimated liability to June 30, 2017 In questions section of the report LPD asks the OCFO why wasn't the PFRS net pension liability figure of $859.2 million per the PFRS 2018 audit report used in the City's 2018 CAFR.

- **If new revenue sources are not established, and revenues as projected in the Plan of Adjustment do not materialize, the City will severely struggle to maintain a viable government without strong cost containment measures. The years after June 30, 2023 will be challenging as the City resumes making regular pension contributions and much of the principal on the debt issued from the bankruptcy settlements become due.**

Major Issues from the City's Enterprise Fund Financial Statements in the 2018 CAFR (Long-term perspective)

Enterprise Fund's Net Position. The City's enterprise funds had a net position of $1.24 billion at June 30, 2018, an increase of $76.3 million from the $1.16 billion net position at June 30, 2017 primarily due to the DWSD bifurcation special item gain of $101.9 million. The enterprise fund cumulative unrestricted net position was a surplus totaling $797.1 million in FY 2018 a $100.9 million increase from the $696.2 million in FY 2017[108].

The Water and Sewage Disposal Funds had a combined $101.9 million special item (e.g., gain) during FY 2018 from the bifurcation. A final Memorandum of Understanding agreement was executed on June 30, 2018 (2018 MOU) concerning the bifurcation of DWSD and GLWA. Certain estimates from prior years were adjusted as a result of the final agreement, including pre-effective liabilities and related cash balances and the portion of the debt assumed by GLWA that was utilized for local system improvements, whose debt will continue to be funded by DWSD. As a result, of the bifurcation negotiations and the 2018 MOU, DWSD has recognized gains (losses) from bifurcation in the current year and prior two years as follows:

		Water Fund	Sewage Disposal Fund	Total
June 30, 2016	$	776,532,736	808,913,176	1,585,445,912
June 30, 2017		(85,895,242)	(72,059,278)	(157,954,520)
June 30, 2018		35,482,690	66,377,234	101,859,924
Cumulative total gain on bifurcation	$	726,120,184	803,231,132	1,529,351,316

Water and Sewage Disposal Funds. In FY 2018 Water and the Sewage Disposal Funds had unrestricted net positions of $446.5 million and $555.8 million, respectively, mainly due to the bifurcation which exchanged the water and sewer regional systems assets and liabilities including long term debt to GLWA for $50.0 million in annual lease payments over 40 years. The unrestricted net positions increased in FY 2018 from the prior year mainly due to the $101.9 million ($35.5 million Water and $66.4 million Sewage Disposal) bifurcation gain[109].

While the Water and Sewage Disposal Funds have large unrestricted net positions at June 30, 2018, both funds have large capital and infrastructure repair and replacement needs and debt obligations to GLWA that will require a large share of that unrestricted net position. According to DWSD representatives, a benefit of the net unrestricted net position is that water and sewer rate increases to Detroit customers will be mitigated, as the unrestricted net position through the

[108] Pages 19 and 27-28 of the 2018 CAFR and pages 19, and 27-28 of the 2017 CAFR
[109] Pages 28 and 29 of the 2018 CAFR

annual $50 million lease payment from GLWA, will provide a significant amount of the funding for both Funds' capital, infrastructure, and debt obligation needs.[110]

Per page 18 and 27 of the 2018 CAFR, there is recorded a $1.1 billion receivable from GLWA for the lease as of June 30, 2018. The receivable was for the present value of the $50.0 million annual lease payment due over 40 years per the City's agreement with GLWA. The annual lease payment from GLWA to the Water Fund is $22.5 million and the present value of the receivable from GLWA on June 30, 2018 was $485.7 million. The annual lease payment from GLWA to the Sewage Disposal Fund is $27.5 million and the present value of the receivable from GLWA on June 30, 2018 was $606.5 million.

It should be noted that the $50 million lease payment is funded from a portion of the common-to-all revenue requirements for the regional systems. The lease payments follow the flow of funds under the related GLWA Master Bond Ordinance. The parties to the Leases anticipated that, due to efficiencies, restructuring opportunities, local and regional capital improvements underway or planned for the future, and other cost savings, funding of the lease payment would not increase the revenue requirements for the regional systems by more than 4 percent per year. Nothing in the Leases changes the obligation of GLWA to comply with the rate covenant under the Master Bond Ordinances. The lease payments are not treated as a GLWA operation and maintenance expense and may be applied by the City, solely at the City's direction and discretion, to the cost of improvements to the local system infrastructure located within the City (payable after debt service and pension liability payments in the flow of funds), the payment of debt service on GLWA Bonds associated with such improvements, or the City's share of debt service on GLWA Bonds associated with common-to-all improvements. Any bonds to finance regional system improvements or DWSD local infrastructure are now issued by the GLWA and are secured by the net revenue (as defined in the Master Bond Ordinances) of the systems.

Pursuant to the Leases, GLWA has exclusive right to establish rates for water and sewer service for both wholesale and retail (City of Detroit) customers; however, GLWA may delegate rate setting to an agent and under the Water and Sewer Services Agreement, and as provided in a December 15, 2015 Court Order, has delegated to the City's Board of Water Commissioners its rights to set rates and collect revenue with respect to retail customers of the City.

As a result of the Leases, DWSD reports activity only related to City retail customers (Detroit retail class). Per the Water and Sewer Services agreement between DWSD and GLWA and the Master Bond Ordinances, the Detroit retail class continues to pay its common-to-all share of debt service revenue requirements and its allocated share of debt service revenue requirements associated with improvements to the local water and sewer systems based on a percentage of total debt service

The lease receivable from GLWA on DWSD's Statement of Net Position does not agree with the lease payable on GLWA's Statement of Net Position for FY 2018. GLWA shows the lease to be $59.4 million less than DWSD for the Water Fund and $85.5 million less for the sewage Disposal Fund. Detailed below is the difference. In the questions section we are asking the

[110] Attachment V "Questions on FY 2017 DWSD Financial Statements Net Position and DWSD Management Responses"

OCFO to explain why the GLWA and DWSD amounts for the lease receivable from GLWA does not agree on June 30, 2018.

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	$ 485.7	426.3	59.4	$ 606.5	521.0	85.5

In FY 2018 the Water Fund had $8.8 million in operating income while the Sewage Disposal Fund had $8.8 million in operating income, a $29.0 improvement over the $20.2 operating loss in FY 2017[111]. Sewage Disposal Fund revenues were up while expenses were down in 2018 compared to the prior year.

It is important to note that as of June 30, 2018, the Sewage Disposal Fund shows a balance of $53.6 million in a liability account entitled "Due to Great Lakes Water Authority".[112] This appears to be attributable to a negative balance caused by a budget shortfall of $47.8 million for the DWSD sewer fund which exceeds the two percent threshold (i.e., actual receipts falling short of budget for either the water fund or sewer fund by greater than two percent) per the 2018 MOU[113]. The budget shortfall not cured by the end of the fiscal year following the year in which they arise shall be repaid in full, in installments over a period not to exceed three fiscal years. The installment payments will include a surcharge based on the three-year U.S. treasury note plus 150 basis points. As of November 7, 2018, DWSD has discussed options to cure this shortfall with its Board of Commissioners and at a Reconciliation Committee meeting on October 19, 2018. A written agreement is presently under discussion to document the plan to cure.[114] In the questions section of this report we ask the OCFO to provide supporting detail of the $53.6 million that is due and how does the DWSD plan to cure this shortfall.

The City needs to closely observe the financial performance of the Water and Sewage Disposal Funds after the bifurcation to ensure the funds maintain solvency and the resources to provide the City's citizens with excellent water and sewage service.

Transportation Fund. The Transportation Fund had an unrestricted net position deficit at June 30, 2018 of $223.7 million, a $13.4 million increase from the $210.3 million deficit on June 30, 2017. This was mainly due to the $10.2 million increase in the net pension liability from $188.2 million at June 30, 2017 to $198.4 million at June 30, 2018. The General Fund provided $55.2 million in subsidies to the transportation Fund in FY 2018 compared to $61.6 million in FY 2017.[115]

Notwithstanding the Transportation Fund, which traditionally receives a large general fund subsidy for its operations, the business-type funds are struggling to fully recover their cost of delivery. There will be a constant need to re-evaluate the fees rates assessed by the business-

[111] Page 28 of the 2017 CAFR (Operating Income (Expenses) line)
[112] Page 28 of the 2018 CAFR.
[113] Note 20. Subsequent Events on page 75 of the 2018 GLWA CAFR: "Item 12 of the 2018 MOU describes a specific function of the Reconciliation Committee created by the 2018 MOU to address any 'cumulative negative variance of more than two percent (2%) of the total budget for either Local System' (i.e., water fund or sewer fund)".
[114] Note 20. Subsequent Events on page 76 of the 2018 GLWA CAFR.
[115] Pages 28-29 of the 2018 CAFR and pages 27-28 of the 2017 CAFR

type entities, as well as explore and implement operational efficiencies, to help avoid future deficits.

In the questions section we ask the OCFO to explain the Transportation Fund's miscellaneous income of $9.8 million for FY 2018 which was $7.6 million higher than the $2.2 million in FY 2017.

Public Lighting Authority. Because the PLA is in substance a part of the City's operation, its financial statements are blended (Blended Component Unit) with the City's financial statements in the CAFR's Enterprise Funds section. The PLA had a $34.9 million net position at June 30, 2018, a $2.7 million increase from the $32.2 million at June 30, 2017.[116] The PLA had revenues of $13.3 million including $12.5 million transferred from the General Fund's utility users' tax revenues. In addition, the City provided a subsidy of $10.3 million to the PLA. The PLA had $12.7 million of expenses for the year ended June 30, 2018. The PLA debt service was $8.4 million.[117]

The PLA had an unrestricted net position of $21.8 million[118]in the FY 2018 CAFR, which is mainly due to the $18.3 million of excess utility user tax revenues collected that will be used to pay its future debt obligations, which is shown in the table below. In the questions section we are asking the OCFO why isn't the $18.3 million of the PLA's unrestricted net position instead reflected as being restricted for debt service.

The PLA also has received General Fund subsidies from the City's General Fund. Article 4 of the Interlocal Agreement between the City and PLA[119]requires the City pay PLA for its operating and maintenance, extraordinary maintenance, and administrative costs. In addition, the agreement requires that the City, in no event, be obligated to pay more than $8,024,000 (Annual Cap Amount) in any given year, excluding any payments for extraordinary maintenance. Article 5 of the agreement requires quarterly payments to the PLA and a reconciliation by the PLA of actual expenses with the quarterly payment made. If the reconciliation discloses an overpayment by the City, the Authority shall credit the difference to the City against the next amounts that may become due under the Agreement. As can be seen from the table below, from FY 2013 through June 30, 2018 a total of $35.5 million in subsidy has been paid to the PLA. The PLA has incurred $35.7 million of operating expenses from FY 2013 through FY 2018.

The table below shows the excess utility user's tax, General Fund subsidy to the PLA, and PLA revenue and expenses from FY 2013 through FY 2018[120].

[116] Page 29 of the 2018 CAFR and page 28 of the 2017 CAFR
[117] Page 29 of the 2018 CAFR
[118] Page 28 of the 2018 CAFR
[119] Interlocal Agreement between the City of Detroit and Public Lighting Authority for the Operation, Maintenance and Management of a Public Lighting System
[120] FY 2013, 2014, 2015, 2016, 2017, 2018 PLA financial statements

	2013	2014	2015	2016	2017	2018	Total
Utility User Tax	$ 1,200,000	17,S49,994	12,S00,000	12,500,000	12,500,000	12,500,000	$ 68,749,994
City Subsidy		7S7,500	5,S27,177	8,886,743	10,039,058	10,302,828	35,513,306
Other Revenue		2,660	1,246,321	1,142,791	1,072,660	835,724	4,300,156
Total Revenue	1,200,000	18,310,154	19,273,498	22,529,534	23,611,718	23,638,562	108,S63,456
Operating Expense	161,S49	1,304,983	S,S89,821	8,157,578	7,813,490	12,711,589	35,739,010
Other Expense					10,493	(20S,S40)	(195,047)
Debt Service		585,489	8,997,S09	8,600,792	8,509,892	8,385,092	35,078,774
Bond Issuance		916,636	2,119,241		5,000	S,000	3,045,877
Total Expense	161,549	2,807,108	16,706,571	16,7S8,370	16,338,87S	20,896,141	73,668,614
Surplus/(Deficit)	$1,038,451	1S,S03,046	2,S66,927	S,771,164	7,272,843	2,742,411	$ 34,894,842
Principal Paid		-	2,970,000	3,030,000	3,120,000	3,24S,000	12,365,000
Excess UUT	1,200,000	16,047,869	(1,S86,750)	869,208	865,108	864,908	$ 18,260,343

Other Enterprise Funds. Other Enterprise Funds include the Airport Fund and Parking Fund.

The General Fund subsidy to the Airport decreased $2.1 million to $.9 million for FY 2018 from $3.0 million in FY 2017. The Airport Fund had a $3.8 million unrestricted deficit net position on June 30, 2018, an increase of $.7 million from the $3.1 million unrestricted deficit net position at June 30, 2017.

The Parking Fund net position on June 30, 2018 was $32.4 million, a decrease of $42.5 million from the $74.9 million net position on June 30, 2017. Parking Fund revenues in FY 2017 were $12.0 million, a $2.8 million decrease when compared to the $14.8 million in FY 2017. The Parking Fund had a $.5 million unrestricted net position on June 30, 2018, a decrease of $7.4 million from the $7.9 million unrestricted net position on June 30, 2017. The Parking Fund sold the Premier garage in FY 2018 and recorded a $21.1 million loss on the sale of assets, which was the main reason for the decline in net position in FY 2018. [121]

<u>City of Detroit's Financial Condition has improved since its Emergence from Bankruptcy on December 10, 2014</u>

Since bankruptcy, the City's fiscal position has stabilized and strengthened[122]:

- The City now has achieved a balanced budget for the fourth consecutive year. While the Finance Review Commission (FRC) has no active role any longer it will continue to exist for a 10-year term. The City is still required to submit monthly financial reports, adopted budget and 4-year financial plan to the FRC each year. So long as the City continues to balance its budgets and meet other basic fiscal requirements, the FRC will stay inactive for the rest of its existence.[123]

- Note, however, that even though the City has achieved a balanced budget for four years in a row, the level of the annual surplus is diminishing:
  - General Fund surplus for FY 2015 $384.3 million[124]

[121] Pages 173 and 174 of the 2018 CAFR and pages 172-173 of the 2017 CAFR

[122] Most of the information in this section is from pages V and VI of the 2018 CAFR

[123] 2018 CAFR, Note 12, page 116

[124] General Fund surplus for FY 2015 was unusually large due primarily to the one-time elimination of debt, pension liability and other liabilities, coupled with an extraordinary gain coming out of bankruptcy on December 10, 2014.

- General Fund surplus for FY 2016 — $ 62.9 million
- General Fund surplus for FY 2017 — $ 53.8 million
- General Fund surplus for FY 2018 — $ 18.4 million

- Three credit rating upgrades in less than three years.

- Income tax revenue has increased 22% over four years ($310.2 million in FY 2018 compared to $253.8 million in FY 2014).

- The Property tax collection rate has increased to 82% in FY 2018 compared to 69% in FY 2014.

- Over the past three years, the City's grants management reform efforts have reduced the City's questioned costs by millions of dollars, decreased the number of audit findings, and helped to close numerous federal corrective action plans. More specifically, FY 2018 represents the third consecutive year of zero questioned costs of federal grant awards compared to $7.3 million in FY 2012 and $18.5 million in FY 2013. As a result, the City is a more successful grantee and has secured hundreds of millions in public and private grants to support neighborhood revitalization and service improvements.

- Transitioned the processing of City income tax and withholding to the State of Michigan, as a result, taxpayers can now e-file and pay taxes electronically and the number of new filers has substantially increased.

- Accomplished a substantial turnaround on paying City suppliers more timely: for example, compared to FY 2017, in FY 2018 there has been an 85% reduction in backlogged invoices on hold waiting to be processed.

- In February 2018, the OCFO established an Administrative Issuance System, which is the system for documenting, issuing, and implementing key policies, process flows, standard operating procedures, and detailed work instructions for all operations with the OCFO. Https: detroitmi.gov departments/office-chief-financial-officer administrative-issuance-system can be visited for a current listing of all policies.

- In June 2018, the City established the Forecasting and Economic Analysis division within the Office of Budget. The purpose of the new division is to provide information and tools to support planning and decision-making across City government, with a focus on revenue and economic analysis and fiscal sustainability.

Major Observations on Economic Condition and City Improvements from the City's Other Supplementary Information in the 2018 CAFR

Inevitably, a government's financial position will be effected by its circumstances (e.g., the vitality and diversification of the local economy, the breadth and depth of the government's tax base). Past experience often is vital to predicting future developments (e.g., Have intergovernmental revenues been increasing or decreasing over time? Has the government's population been growing or shrinking?). Economic condition focuses on the likelihood that today's financial position will improve or deteriorate in the future. Much of the information needed for assessing economic condition involves either nonfinancial data (e.g., population and

unemployment) or financial data presented for multiple years (e.g., 10-year trends). Such data typically are located either in the introductory section & transmittal letter of the CAFR, in the statistical section[125] of the CAFR and/or as part of the required supplementary information (RSI)[126].

The following major observations regarding the economic condition perspectives of the City and other initiatives are from LPD's review of the introductory section[127] in the 2018 CAFR:

- The City's current economic condition is improving. The future outlook for recovery and improvement is positive. Businesses are transferring employees from suburban cities to the City of Detroit. New residents are moving into the City. However, much of the improvement in economic development is located in concentrated areas of the City (i.e., mid-town, downtown and certain neighborhoods of the City).

- The City has committed to a multi-year effort to improve City services that impact its citizens' quality of life and that enhance sustainability. Services across all neighborhoods have drastically improved. Activities and accomplishments include[128]:

    - 75,000 constituent complaints resolved through new Improve Detroit app
    - 50,000 prevented foreclosures of occupied homes under programs to assist families in need
    - 65,000 new LED streetlights
    - 8,000 summer jobs for Detroit youth
    - 2,000 miles of neighborhood residential streets being swept three times a year after a seven-year absence
    - 1,200 new units of affordable housing opened or in development
    - 400 Project Green Light businesses with real-time camera connections to police headquarters helping to keep the City safe, up from 196 last year
    - 275 parks being fully maintained, up from only 25 in 2013, 40 of which are completely remade
    - 120 new DDOT buses added to the fleet, nine new 24-hour routes, and six brand new bus lines
    - 100 new small businesses (78% owned by entrepreneurs of color) opened, under construction or funded through Motor City Match
    - 27 Recreation Centers open this past summer including 16 new Summer Fun Centers in partnership with the Detroit Public Schools
    - 15 minute police priority 1 response time, down nearly 30 minutes on average
    - Eight minute emergency medical service response time, down from nearly 20 minutes on average

- Blight remediation remains one of the City's highest reinvestment priorities and is progressing at a strong pace. The City is leveraging substantial Federal grants, including $258.8 million in Hardest Hit Funds, alongside City funds to demolish dangerous structures and return the

[125] Page 186 of the 2018 CAFR
[126] Page 120 of the 2018 CAFR
[127] Pages i to viii of the 2018 CAFR
[128] Page vii of the 2018 CAFR

parcels to productive uses. Activities and accomplishments include:

- 15,000 dangerous vacant houses demolished
- 10,000 blighted abandoned homes boarded up
- 3,000 vacant homes being rehabbed and reoccupied under land bank programs
- 10,000 side lots sold to neighbors for $100, up from 7,000 last year
- 110,000 vacant lots now being cut 3 to 4 times a year after being left overgrown for years

- The City of Detroit, Michigan is tackling the geographic and strategic alignment of City assets to grow and diversify Detroit's economy. Defined by a three-year vision, the City and its economic development arm, the Detroit Economic Growth Corporation, are working to secure 10,000 jobs and $3.4 billion of investment and open 140 small businesses citywide by 2020. To achieve this goal, the City's economic development strategic positions are to: (1) attract and direct investment by showcasing Detroit's assets and building the case for investment, (2) lead land development efforts that unlock economic growth citywide, and (3) support small and large businesses to locate and grow in Detroit.

- Detroit's strength as a business location is evident through its successes. Since 2012, Detroit has seen almost $1 billion invested in automotive manufacturing at new and existing suppliers and $96 million invested in over 14 full-service grocery stores. Downtown Detroit's vacancy rate has fallen 12 percent in the past five years to 17.5 percent. Additionally, according to the 2014-2015 Annual Michigan Venture Capital Research report, Detroit is becoming a new focal point of venture capital activity, with 24 firms receiving $186 million in investment. Over 52 percent of those are tech-related.

- History of total primary government net position:[129]
    - FY 2018 $ 898.0 million
    - FY 2017 $ 812.1 million
    - FY 2016 $ 994.5 million
    - FY 2015 $(2,074.9) million
    - FY 2014 $(4,040.8) million

  Since FY 2014, the impact of the bankruptcy, the bifurcation of Water and Sewer, and overall improvement in City finances has resulted in positive primary government net position figures in recent years.

- History of general fund unassigned surplus (deficit) and total general fund balance:[130]
    - FY 2018 $131 million unassigned surplus; $611 million total general fund balance
    - FY 2017 $169 million unassigned surplus; $592 million total general fund balance
    - FY 2016 $143 million unassigned surplus; $501 million total general fund balance
    - FY 2015 $ 71 million unassigned surplus; $438 million total general fund balance
    - FY 2014 $(145) million unassigned deficit; $53 million total general fund balance

[129] Information is from statistical section of 2018 CAFR, pages 188 and 189
[130] Information is from statistical section of 2018 CAFR, pages 194 and 195

Since FY 2014, coming out of bankruptcy, with better economic conditions and with the institution of greater financial controls, the City's main operating account, the general fund, has experienced healthier financial results.

City of Detroit's Risk Factors and Potential Opportunities

Although the City of Detroit has increased its financial position in recent years, and it is likely that the City's economic condition will improve, the following represent economic and fiscal risks that should be considered[131]:

- Changes to federal fiscal policy may negatively impact federal entitlement programs resulting in a loss of funds to state and local municipalities.

- Increased uncertainty in federal government monetary and trade policy. Failure to raise debt ceiling would have a negative impact on the economy.

- Challenges to State budget from declining local finances and other critical issues may unfavorably impact the Statutory State Revenue Sharing distribution to local municipalities. Lower Sales Tax revenues/slowing auto sales directly impact local share.

- Risks to estimated property tax collections due to the impact of Wayne County chargebacks netted against the delinquent accounts revolving fund payment.

- Loss to personal property tax collections not fully reimbursed by the state.

- Lower consumer confidence depresses spending and reduces sales tax revenues.

- Rising interest rates resulting in lower consumer spending/housing activity. Uncertainty in fed actions on when/how much Fed Fund Rate will rise.

- Rising inflation adversely impacts economic performance.

- Lower census numbers result in loss of federal state funds tied to population.

- Potential recession in the near future.

The following represent potential opportunities for the City of Detroit to further improve revenues:

- Major development projects, announced or in process, are not included in revenue estimates until revenue stream to the City materializes. The potential for increased economic development to increase the City's tax base and generate additional revenues for the City.

[131] Fiscal risks are from the February 2018 Detroit Revenue Estimating Conference report, which can be accessed at https: detroitmi.gov sites detroitmi.localh st_files/mi rated_docs financial-reports Feb%202018%20Revenue%20Estimating%20Conference%20Report%20FINAL pdf

- Ongoing improvements to collection efforts in FY 2018 results in additional tax revenues not currently reflected in the estimates

- State of Michigan processing of the City's income tax and subsequent withholding collections results in increased compliance and generate additional revenues for the City. E-pay payment option should improve collection activity.

- Passage of State legislation requiring non-Detroit businesses to withhold income taxes of employees residing in Detroit should significantly increase income tax collections.[132]

- Sales tax on internet purchases may increase state local share distributions to city villages/townships.

Other Major Issues/Observations from the Review of the 2018 CAFR

Downtown Development Authority Capital Grants and Contributions. The Downtown Development authority reported capital grants and contributions totaling $354.9[133] million for the year ended June 30, 2018. In the questions section we are asking the OCFO to explain what these revenues are and if they are related to the Little Caesars Arena financing.

Tax Abatement Disclosures. In the FY 2018 CAFR, Note 13 Tax Abatements are reported as required by GASB Statement No. 77, Tax Abatement Disclosures[134]. The City disclosed the programs and the estimated amount of taxes abated during the most recent year. Detailed below is a summary of the programs and abated amounts for FY 2018

		Abatement Amount			
		2018	2017	Difference	
Program	Legislation	Total Taxes	Total Taxes	Total Taxes	Comment
Brownfield Redevelopment Act (BRA)	PA 381 1996	$ 1,118,136	$ 1 295,479	$ (177,343)	Cleanup of Environmental Issues
Industrial Facilities Act (IFT)	PA 198 1974	606,817	628,862	(22,045.00)	Redevelopment of Facility
Commercial Rehabilitation Act (CRA)	PA 210 2005	1,543,958	415,906	1,128,052.00	Rehabilitation of Qualified Facility
Commercial Redevelopment Act (CFT)	PA 255 1978	6 876	2,067	4,809.00	Redevelopment of Commercial Property
Renaissance Zone Act (RZ)	PA 376 1996	6,840,208	8,446,677	(1,606,469.00)	Economic Development in Designated Area
Obsolete Property Rehab Act (OPRA)	PA 146 2000	1,251,594	1,088,949	162,645.00	Redevelopment of Obsolete and Blighted Buildings
Neighborhood Enterprise Zone (NEZ)	PA '47 1992	4,571,933	4,596,460	(24,527 00)	Financial Investment in Property
Land Bank Fast Track Act (LB)	PA 258-263 2003	313,285	321,525	(8,240.00)	Improvement of Property
Elig ble Manl. Personal Property (EMPP	PA 328 1998	11,123,269	9,820,559	1,302,710.00	Exempts Personal Property from Tax
Sr. Citizen/Disabled Fam Hous. Exempt	PA 78 2016	153,479	71,128	82,351.00	Manage Sr. Citizen & Disabled Family Housing
MSHDA	PA 346 1966	11,214,777	9,278,715	1,936,062.00	Provide 7 Manage Low-Income Housing
Totals		$ 38,744,332	$ 35,966,327	$ 2,778,005	

[132] It should be noted that effective December 21, 2018, Michigan Public Act 456 of 2018 was passed to amend PA 284 of 1964 City Income Tax Act to allow non-Detroit businesses to **voluntarily** withhold income taxes of employees residing in Detroit.

[133] Page 20 of the FY 2018 CAFR

[134] Pages 116-117 of the 2018 CAFR, Note 13

In FY 2018 the City gave an estimated $38.7 million of tax abatements so as to be competitive in Southeastern Michigan to encourage business and residency growth. This was $2.7 million more than the $36.0 million in tax abatements for FY 2017.

Fair Allocation of Legacy Costs to Solid Waste Fund. The City is not properly allocating the pension and legacy costs to the Solid Waste Fund and some other City funds (e.g., BSEED, and Street Funds) that have the means to pay for them. Legacy costs were allocated to funds based on payroll costs. The Solid Waste Fund was partially privatized for waste disposal and recycling services in FY 2014. When a Fund is privatized and the City payroll is reduced or eliminated there is no process to properly allocate all the legacy costs that the Fund has incurred. The General Fund is left having to pay for those legacy costs. The Solid Waste Fund had a $61.4 million Fund Balance on June 30, 2018, which was a $9.2 million increase from the $52.2 million Fund Balance in FY 2017.[135] The Solid Waste Fund was not charged for its share of the settlements for OPEB (e.g., retiree health care) through the 2014 B(1) and B(2) bonds (VEBA Bonds) and the POCs in FY 2015 - FY 2018. The Solid Waste Fund Balance is growing because it is not paying its fair share of the legacy costs.

Other Special Revenue Funds with Large Fund Balances Other Special Revenue Funds had large Fund Balances at June 30, 2018. These include: (1) Construction Code Fund (BSEED) - $19.6 million; (2) Drug Law Enforcement Fund - $9.0 million; (3) Street Funds - $71.3 million; and (4) Telecommunications Fund - $5.4 million.[136] The large fund balances could be due in part to the Fund not being charged its fair share of costs incurred. The City needs to ensure legacy costs and other costs are properly charged to these Special Revenue Funds and the grant funds (e.g., Block Grants and General grants). There is a risk that the General Fund will pay for costs incurred by other Funds that have revenue sources outside the General Fund that could have paid for those costs.

The Plan of Adjustment (POA) requires the BSEED to annually repay the General Fund a series of payments through FY 2023 totaling $17.7 million for the loans made to the BSEED when it ran deficits prior to the bankruptcy[137]. Even though the Construction Code Fund has a $19.6 million fund balance nothing has been repaid to the General Fund and the FY 2019 Budget and Four Year Financial Plan does not include any provision for repayment. In the questions section we ask the OCFO why BSEED is not repaying the General Fund per the POA.

General Grants Deficit. Of concern is the $10.4 million deficit in the General Grants Fund and the impact to the General Fund. In the questions section we ask the OCFO what is causing the deficit and how much will the General Fund have to pay to liquidate the deficit. Also, we ask if there is an accounting issue where expenses are not being charged to the proper fund.

Of concern is the $21.2 million of long-term advances the City had made to: (1) Sewage Disposal Fund $4.9 million; (2) Transportation Fund $4.8 million; (3) Water Fund $2.9

[135] Pages 145-146 of the 2018 CAFR and Page 146 of the 2017 CAFR
[136] Pages 145-146 of the 2018 CAFR
[137] Ten Year Plan of Adjustment, Restructuring and Reinvestment initiatives Enterprise Agencies, Building Safety Engineering Environmental Department (BSEED) General Fund pages 62-63 of 70, Fourth Disclosure Statement filed with the Bankruptcy Court on May 5, 2014 (13-53846-swr Doc 4391-2)

million; (4) Nonmajor enterprise funds $450,000; and (5) Component Units $8.1 million.[138] In the questions section we ask the OCFO to explain in detail what the long-term advances are and what they are for and why they did not come before City Council. LPD assumes some of these advances are related to those funds that are obligated to pay the General Fund for the 2014 C bonds that were redeemed by the general fund in FY 2018.

Bridging Neighborhoods Fund. The Bridging Neighborhoods Fund is new Special Revenue Fund added in FY 2018. On June 30, 2018 it had an $18.4 million fund balance.[139] In the questions section we are asking the OCFO to explain the fund purpose and how it received $18.0 million from the sale of capital assets.[140]

CDBG Revenue. Of concern was that CDBG (Community Development Block Grant) Fund federal grant revenue was $34.0 million in FY 2018[141], which was $14.2 million less than the $48.2 million in federal grant revenue in FY 2017. Federal grant revenue for the CDBG Fund was $45.0 million in FY 2016. In the questions section we ask the OCFO to explain the reason for the large drop in CDBG revenue in FY 2018.

Noncompliance Fees Fund. The Noncompliance Fees Fund is a new Special Revenue Fund added in FY 2018. On June 30, 2018 it had a fund balance of $419,679[142]. The FY 2018 revenues totaled $4.8 million. We assume that these revenues are the CRIO (Civil Rights Inclusion and Opportunity Department) fines for non-compliant businesses. In the questions section we ask the OCFO to explain the Noncompliance Fees Fund and its purpose.

Solid Waste Fund. The Solid Waste fund had $63.8 million in fees (Sales and charges for services) in FY 2018 which was $9.4 million higher than the $54.4 million in fees collected in FY 2017.[143]

Other Governmental Entities. The other governmental entities' June 30, 2018 financial statements and related management letters should at least be presented to the Council's Budget, Finance and Audit (B,F&A) committee since "the elected officials of the primary government are financially accountable" of the legally separate organizations termed "Discretely Presented Component Units". As a result, the B, F&A role is more critical to the legislative body's role of maintaining fiduciary responsibility for the City.

Non Compliance with Legal and Contractual Provisions. The City was not in compliance with legal and contractual provisions for the year ended June 30, 2018 (see Note 2 (a) and 2 (b) in the CAFR)[144], which included:

- The City was not in compliance with legal and contractual provisions for the year ended June 30, 2018, which included: 1) the City failed to properly escheat balances to the State as required; 2) the City was not in compliance with the State of Michigan Public Act 2 of 1968, Uniform Budgeting and Accounting Act, Section 141.435 (2), which requires total

[138] Page 68 of the 2018 CAFR Note 5 (b) Advances between Funds
[139] Page 145 of the 2018 CAFR
[140] Page 147 of the 2018 CAFR
[141] Page 146 of the 2018 CAFR, page 147 of the 2017 CAFR
[142] Pages 144 and 146 of the 2018 CAFR
[143] Page 147 of the 2018 CAFR and page 148 of the 2017 CAFR
[144] Pages 52-53 of the 2018 CAFR Note 2(a) and 2(b)

budgeted expenditures not to exceed estimated revenue plus accumulated fund balance. The City's final budget for several non-major special revenue funds resulted in a projected deficit. The City incurred expenses against certain appropriations in excess of the amount appropriated by City Council. The City amended the FY 2018 budget subsequent to year end.

- The City was not in compliance with 2 CFR 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, Section 200.302, which requires the City to: "Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received." The City's general ledger records were not always accurate at the individual grant level, as required.

- **Special Revenue and Component Unit Deficit Unassigned Fund Balances.** The following are funds that had a deficit unassigned fund balance or deficit unrestricted net position on June 30, 2018. The General Grants Fund (Special Revenue Fund) had a deficit of unassigned fund balance of $10.4 million. The Detroit Public Library (Component Unit) had a deficit of unassigned fund balance of $3.5 million. The Detroit Transportation Corporation (Component Unit) had a deficit unrestricted net position of $859,064. Eastern Market (Component Unit) had a deficit unrestricted net position of $404,696. Local Development Finance Authority (Component Unit) (LDFA) had a deficit unrestricted net position of $21.6 million. The Detroit Employment Solutions Corporation (Component Unit) had a deficit of unassigned fund balance of $96,474. The Museum of African American History (a Component Unit) had a deficit unrestricted net position of $780,342. The Transportation Fund (DDOT) (Enterprise Fund) had a deficit unrestricted net position of $223.7 million. The Airport Fund (Enterprise Fund) had a deficit unrestricted net position of $3.8 million. The City is not required to file a deficit elimination plan with the State for any of these funds or component units because they do not meet any of the State's criteria for filing, mainly because they have positive working capital (current assets/resources exceed current liabilities).[145].

Syncora Bankruptcy Settlement.[146] The City and Syncora reached an agreement effecting a global settlement of all matters and litigation between the parties related to the Bankruptcy Case, as set forth in the Syncora settlement documents. The parties entered into the Syncora Development Agreement and the Syncora Option Agreement. The City and Grand Circus Holdings, LLC, an affiliate of Pike Pointe Holdings (owned by Syncora), have negotiated a 30 year long- term master lease for the Grand Circus Park Garage upon terms consistent with the Option Agreement. Representatives of Syncora have presented to the Planning and Development Department (PDD) and the Detroit Economic Development Corporation (EDC) an initial master plan and marketing booklet for contiguous parcels at Atwater and Rivard streets.

During the term of the lease agreement and upon its termination, the City will maintain ownership of the Grand Circus garage. The Lessee (Pike Pointe Holdings, LLC) is obligated to operate and maintain the garage during the lease term at its sole cost and expense and has the right to collect all parking revenue derived from the Grand Circus garage. The Lessee is also responsible, at its sole cost and expense, for all necessary capital expenditures for the Grand Circus garage.

[145] Pages 52-53 of the 2018 CAFR Note 2 (b)
[146] Pages 114, 118-119 of the 2018 CAFR

Rent to the City will be calculated as 25 percent of "Free Cash Flow". Free cash flow is defined as revenue collected from the Grand Circus garage minus operating expenses, minus initial capital expenditures up to $13.5 million during the first five years of the lease term, and minus a return of 140 percent on its initial capital expenditures. Accordingly, the Lessee shall be entitled to all free cash flows until a maximum of up to approximately $18.9 million of free cash flows are received. Subsequent to that point, the City will begin to receive 25 percent of the future free cash flows.

Introduction to the Report. The Introduction to the Report[147]section of the 2018 CAFR was excellent and highlighted the accomplishments of the City, which showed what a good stewardship of resources by the City's leaders, management and employees.

The Administration should be commended for the thoroughness of the 2018 CAFR. It behooves the Budget, Finance and Audit Committee to continue to do its due diligence to understand and examine the 2018 CAFR.

Property Tax Note 1(m). The property tax footnote's last paragraph states, "approximately $69.4 million of delinquent property taxes receivable was transferred (sold) to the County"[148]. The statement is in error as delinquent solid waste and water fees were also included in the $69.4 million transferred to the County. The $69.4 million total included delinquent solid waste fees totaling $21.5 million and delinquent water fees totaling $9.3 million.

<u>**Questions for the Administration**</u>

Listed below are LPD's questions for the City's Administration on the 2018 CAFR. LPD respectfully requests that the Administration respond to the issue/observations indicated in four weeks LPD wants to thank the Administration in advance for these responses.

1. **The Plan of Adjustment (POA) requires the BSEED (a/k/a "Construction Code Fund" for CAFR purposes) to annually repay the General Fund a series of payments through FY 2023 totaling $17.7 million for the loans made to the BSEED when it ran deficits prior to the bankruptcy[149]. Even though the Construction Code Fund has a $19.6 million fund balance nothing has been repaid to the General Fund and the FY 2019 Budget and Four Year Financial Plan does not include any provision for repayment. Please explain why isn't BSEED repaying the General Fund per the POA.**

2. **In addition to the Construction Code Fund, there are other Special Revenue Funds that large balances at June 30, 2018, including: 1) $61.4 million for the Solid Waste Fund; 2) $9.0 million for the Drug Law Enforcement Fund; 3) $71.3 million for the Street Funds; and 4) $5.4 million for the Telecomminications Fund. It appears the City has not propertly allocated pension and legacy costs and other reimbursable**

[147] Pages i-viii of the 2018 CAFR
[148] Page 49 of the 2018 CAFR, and County June 2018 settlement schedule
[149] Ten Year Plan of Adjustment, Restructuring and Reinvestment initiatives Enterprise Agencies, Building Safety Engineering Environmental Department (BSEED) General Fund pages 62-63 of 70, Fourth Disclosure Statement filed with the Bankruptcy Court on May 5, 2014 (13-53846-swr Doc 4391-2)

costs (such as central staff services cost) to these funds which the means to pay for them and relieve the General Fund of these costs. Please explain what methodology the OCFO will explore to ensure the Special Revenue Funds identified above will be charged to properly reimburse the General Fund for reimbursable costs.

3. **Of concern is the $10.4 million deficit in the General Grants Fund and the impact to the General Fund. Please explain what is causing the deficit and how much will the General Fund have to pay to liquidate the deficit. Is there is an accounting issue where expenses are not being charged to the proper fund?**

4. **Of concern is the $21.2 million of long-term advances the City's General Fund had made to: (1) Sewage Disposal Fund $4.9 million; (2) Transportation Fund $4.8 million; (3) Water Fund $2.9 million; (4) Nonmajor enterprise funds $450,000; and (5) Component Units $8.1 million.[150] Please explain in detail what the advances are and what they are for and why they did not come before City Council? LPD assumes some of these advances are related to those funds that are obligated to pay the General Fund for the 2014 C bonds that were redeemed by the general fund in FY 2018.**

5. **The Bridging Neighborhoods Fund is a new Special Revenue Fund added in FY 2018. On June 30, 2018 it had an $18.4 million fund balance.[151] Please explain the fund purpose and how it received $18.0 million from the sale of capital assets in FY 2018.[152]**

6. **Of concern is that CDBG (Community Development Block Grant) Fund federal grant revenue was $34.0 million in FY 2018, which was $14.2 million less than the $48.2 million in federal grant revenue in FY 2017. Federal grant revenue for the CDBG Fund was $45 million in FY 2016. Please explain the reason for the large drop in CDBG revenue in FY 2018.**

7. **The Noncompliance Fees Fund is a new Special Revenue Fund added in FY 2018. On June 30, 2018 it had a fund balance of $419,679[153]. The FY 2018 revenues totaled $4.8 million. We assume that these revenues are the CRIO (Civil Rights Inclusion and Opportunity Department) fines for non-compliant businesses. Please explain the Noncompliance Fees Fund and its purpose.**

<u>Note</u>: Attachments I and II provide the account variance analysis for most of the following questions:

8. **A total of $171.0 million of restricted cash was included on the General Fund's balance sheet on June 30, 2018 compared to $130.5 million on June 30, 2017. The General Fund had $643.4 million of cash on June 30, 2018 which included $171.0 million of restricted cash compared to $647.6 million of cash on June 30, 2017**

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[150] Page 68 of the 2018 CAFR Note 5 (b) Advances between Funds
[151] Page 145 of the 2018 CAFR
[152] Page 147 of the 2018 CAFR
[153] Pages 144 and 146 of the 2018 CAFR

including the $130.5 million of restricted cash. Please explain why the restricted cash increased $40.5 million in FY 2018.

9. **The General Fund property taxes receivables were $ 19.2 million on June 30, 2018, a decrease of $61.1 million from the $80.3 million on June 30, 2017. Please explain why the property taxes receivables declined so much in 2018.**

10. **The General Fund income tax assessments receivables on June 30, 2018 were $33.2 million less than on June 30, 2017. Please explain why this account balance declined so much.**

11. **The General Fund allowance for uncollectable accounts on June 30, 2018 were $236.4 million, a decrease of $40.6 million from the $277.0 million on June 30, 2017. Please explain why this account balance declined so much.**

12. **The General Fund advances to other funds were $13.0 million on June 30, 2018, an increase of $13.0 million from the zero balance on June 30, 2017. Please explain what these advances are and what is the plan to pay them back to the General Fund. Also, please explain why these advances to other funds were made without City Council approval.**

13. **The General Fund advances to component units totaled $8.1 million on June 30, 2018. Please explain what these advances are and what is the plan for repayment to the General Fund. Also, please explain why these advances to component units were made without City Council approval.**

14. **The Detroit Public Library owed the General Fund $3.2 million on June 30, 2018. Please explain in detail what is owed and if the General Fund is subsidizing the Library. Also, please explain why this loan was made to the Detroit Public Library without City Council approval.**

15. **The General Fund due to other funds was $67.6 million on June 30, 2018, a $28.7 million decrease from the $96.3 million on June 30, 2017.** [154] **Please explain why the due to other funds was so much less in FY 2018. Also, please explain the $24.8 million owed to DDOT on June 30, 2018.**

16. **Please explain why the General Fund deferred inflows of resources unearned revenue decreased by $49.7 million in FY 2018.**

17. **General Fund property tax revenue was $119.1 million in FY 2018, a $10.4 million decrease from the FY 2017 amount of $129.5 million.**[155] **The decrease was mainly due to a reduction in collections. Please explain the decrease in property tax revenue in FY 2018.**

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[154] Page 22 of the 2018 CAFR and page 22 of the 2017 CAFR

[155] Page 25 of the 2018 CAFR and page 24 of the 2017 CAFR

18. **General Fund other taxes and assessments were $3.4 million for the year ended June 30, 2018, a $7.0 million decrease from the $10.4 million for the year ended June 30, 2017. Please explain why this decreased in FY 2018.**

19. **General Fund federal grant revenue was $2.8 million in FY 2018 and was $2.6 million more than the $.2 million in FY 2017.[156] Please explain why the federal grant revenue increased in FY 2018.**

20. **General Fund sales and charges for services revenue was $73.0 million in FY 2018, a $5.1 million decrease from the $78.1 million for FY 2017. Please explain why this decreased in FY 2018.**

21. **General Fund ordinance fines and forfeitures revenues decreased $2.3 million in FY 2018 from the prior year. Please explain why these revenues declined in FY 2018.**

22. **General Fund other revenue was $28.1 million in FY 2018, an increase of $5.1 million from the $23.0 million in FY 2017. Please explain why this increased in FY 2018.**
23. **General Fund public protection expenditures were $435.6 million in FY 2018, an increase of $23.6 million from the $412.0 million in FY 2017. Please explain the increase in public protection expenses.**

24. **General Fund housing supply and conditions expenditures were $12.3 million in FY 2018, an increase of $4.6 million from the $7.7 million in FY 2017. Please explain the increase in housing supply and conditions expenses.**

25. **General Fund physical environment expenditures were $5.1 million in FY 2018, a decrease of $4.5 million from the $9.6 million in FY 2017. Please explain the decrease in physical environment expenses.**

26. **General Fund capital outlay was $49.3 million in FY 2018, a $26.9 million increase from the $22.4 million in FY 2017. Please explain in detail why the Capital Outlays increased in 2018 and provide examples of significant outlays made.**

<u>Note</u>: Attachments III and IV provide the account variance analysis for most of the following questions:

27. **The Primary Government's deferred outflows of resources decreased $122.3 million in FY 2018 from the prior year. Please explain why this decreased in FY 2018.**

28. **Primary Government's accounts and contracts payable were $125.1 million on June 30, 2018, a $29.7 million increase from the $95.4 million balance on June 30, 2017. Please explain why the accounts and contracts payable increased in FY 2018.**

29. **Primary Government's due to other governmental agencies was $87.1 million on June 30, 2018, a $77.8 million decrease from the $164.8 million on June 30, 2017.**

[156] Page 25 of the 2018 CAFR and page 24 of the 2017 CAFR

Please explain why the due to other governmental agencies decreased so much in FY 2018 and whether escheatments were made from this account.

30. **Primary Government's deferred inflows of resources were $21.2 million on June 30, 2018, an increase of $14.5 million from the $6.7 million on June 30, 2017.[157] Please explain why the deferred inflows of resources increased in FY 2018.**

31. **Primary Government's restricted for pension had a zero balance on June 30, 2018, a $186.0 million decrease from the $186.0 million balance on June 30, 2017. Please explain why the restricted account for pension went to zero in FY 2018.**

32. **Primary Government's charges for services revenue was $645.0 million on June 30, 2018, an increase of $33.8 million from the $611.2 million on June 30, 2017.[158] Detailed below is a comparison of the various charges for services for FY 2018 and FY 2017.**

	FY 2018	FY 2017	Difference
Public Protection	82,142,006	87,794,040	(5,652,034)
Health	2,543,252	2,981,002	(437,750)
Recreation and Culture	2,097,986	859,989	1,237,997
Economic Development	6,581,729	669,987	5,911,742
Housing supply and Conditions	-	2,386,191	(2,386,191)
Physical Environment	44,307,433	33,804,805	10,502,628
Transportation Facilitation	3,728,872	4,204,012	(475,140)
Development and Management	42,238,300	46,510,771	(4,272,471)
Water	115,019,869	108,174,791	6,845,078
Sewer	291,130,813	273,687,927	17,442,886
Transportation	29,236,816	21,285,572	7,951,244
Automobile Parking	12,013,301	14,795,766	(2,782,465)
Airport	619,190	701,032	(81,842)
Public Lighting Authority	13,335,724	13,381,653	(45,929)
	644,995,291	611,237,538	33,757,753

The following had significant changes for charges for services revenue: (1) public protection ($5.7 million); (2) recreation and culture $1.2 million; (3) economic development $5.9 million; (4) housing supply and conditions ($2.4 million); (5) physical environment $10.5 million; (6) transportation (DDOT) $8.0 million; (7) parking ($2.8 million). Please explain these major changes in the charges for services revenues for FY 2018. LPD assumes water revenues increased by $6.8 million and sewer revenues increased by $17.4 million based on fee increases. Please explain the rates that were enacted in FY 2018 that support these increases.

33. **Primary Government's property taxes were $159.1 million for the year ended June 30, 2018, an $89.1 million decrease from the $248.3 million for the year ended June 30, 2017. Please explain why property taxes revenue decreased so much in FY 2018.**

[157] Page 18 of the 2018 CAFR and page 19 of the 2017 CAFR
[158] Pages 20-21 of the 2018 CAFR and pages 20-21 of the 2017 CAFR

34. Primary Government's other local taxes were $6.6 million for the year ended June 30, 2018, a $7.4 million decrease from the $14.0 million for the year ended June 30, 2017. Please explain the decrease in other local taxes in FY 2018.

35. Primary Government's miscellaneous revenue was $94.8 million for the year ended June 30, 2018, a $19.3 million increase from the $75.5 million for the year ended June 30, 2017. Please explain the increase in miscellaneous revenue for FY 2018.

36. Primary Government's public protection expenses were $459.2 million in FY 2018, a $184.5 million decrease from the $643.7 million amount in FY 2017. Please explain why public protection expenses decreased so much in FY 2018.

37. Primary Government's recreation and culture expenses were $37.4 million, a $7.5 million increase from the $29.9 million in FY 2017. Please explain why recreation and culture expenses increased so much in FY 2018.

38. Primary Government's housing and supply conditions expenses were $25.0 million in FY 2018, an increase of $15.2 million from the $9.8 million in FY 2017. Please explain why the housing and supply conditions expenses increased so much in FY 2018.

39. Primary Government's physical environment expenses were $152.8 million in FY 2018, a $36.1 million increase from the $116.7 million amount in FY 2017. Please explain why physical environment expenses increased in FY 2018.

40. Primary Government's development and management expenses were $403.9 million in FY 2018, an Increase of $78.0 million from the $325.9 million in FY 2017. Please explain why development and management expenses increased so much in FY 2018.

41. Primary Government's interest on long-term debt was $62.5 million in FY 2018, a $29.1 million decrease from the $91.6 million in FY 2017. Please explain why the interest on long-term debt decreased so much In FY 2018.

42. Primary Government's sewage disposal expense was $300.1 million in FY 2018, a $14.9 million decrease from the $315 million in FY 2017. Please explain why the sewage disposal expense decreased so much in FY 2018.

43. Primary Government's transportation expense was $158.6 million in FY 2018, a $19.9 million decrease from the $178.6 million in FY 2017. Please explain why the Transportation expense decreased so much in FY 2018.

44. Primary Government's water expense was $130.1 million in FY 2018, an increase of $7.2 million from the $122.9 million In FY 2017. Please explain why the water expense increased in FY 2028.

45. Primary Government's automobile parking expenses were $29.5 million in FY 2018, an increase of $19.2 million from the $10.3 million in FY 2017. Parking had a $21.1

million loss on the sale of assets (Premier garage). Please explain why the automobile parking expense increased so much in FY 2018.

46. **Primary Government's public lighting authority expense was $21.1 million in FY 2018, an increase of $4.8 million from the $16.3 million in FY 2017. Please explain why the public lighting authority expense increased in FY 2018.**

47. **The lease receivable from GLWA on DWSD's Statement of Net Position does not agree with the lease payable on GLWA's Statement of Net Position for FY 2018. Please why doesn't the GLWA and DWSD amounts for the lease receivable from GLWA agree on June 30, 2018.**

	in Millions					
	Water			Sewer		
	DWSD	GLWA	Difference	DWSD	GLWA	Difference
Receivable From GLWA	$ 485.7	426.3	59.4	$ 606.5	521.0	85.5

48. **Please explain why the Transportation Fund's miscellaneous income of $9.8 million for FY 2018 was $7.6 million higher than the $2.2 million in FY 2017.**

49. **The Downtown Development Authority (DDA) reported capital grants and contributions revenue totaling $354.9 million for the year ended June 30, 2018. Please explain what these revenues are and if they are related to the Little Caesars Arena financing.**

50. **Note 13 of 2018 CAFR: Tax Abatements indicate there was approximately $38.7 million in total abated taxes as of June 30, 2018. LPD understands incremental property tax capture information for the DDA is not included in this note since it does not meet the specified criteria for this note disclosure. Please explain why the DDA incremental property tax capture information does not meet the specified criteria for this note disclosure. Please provide the FY 2018 DDA total taxes abated for both the General Fund and Debt Service Fund.**

51. **Attachment VI shows LPD's calculation of the $18.3 million in excess utility user tax payments to the Public Lighting Authority (PLA) through FY 2018. Utility user tax payments are used strictly for the use of making debt service (principal and interest) payments. On page 28, the 2018 CAFR shows a $21.8 million unrestricted surplus figure for the PLA, which appears to be misleading. Please explain why isn't the $18.3 million of excess utility user tax payments to the PLA rather shown as restricted for debt service in the PLA FY 2018 financial statements, thereby reducing the $21.8 million unrestricted surplus by the $18.3 million.**

52. **The General Retirement System of the City of Detroit (GRS) GASB[159] Statement Nos. 67 and 68 Accounting and Financial Reporting for Pension Plans of**

[159] "The Government Accounting Standards Board (GASB) is a private, nongovernmental body that is charged with setting accounting guidance for state and local governments. Since its establishment in 1984, GASB has issued 86 statements to enhance the transparency, accountability, and clarity of state and local financial reporting. GASB's goal is to ensure that financial information regarding the status and use of public funds is useful to decision makers

Component II (Legacy) at June 30, 2018 report was completed on October 31, 2018. This report represents the GRS FY 2018 Component II (Legacy) pension actuary report. Page 22 of this report shows the GRS's Net Pension Liability at $832.7 million as of June 30, 2018 for the GRS Component II (Legacy) Pension Plan, which is also reflected in Note 7 on page 28 of the GRS FY 2018 CAFR. The City uses the GRS Net Pension Liability of $944.1 million as of June 30, 2017 in the City's FY 2018 CAFR (Page 94). Please explain why doesn't the City include the GRS Net Pension Liability as of June 30, 2018 in the City's FY 2018 CAFR. Please also explain why is it using the prior year's (as of June 30, 2017) GRS Net Pension Liability? Similar questions would apply to the GRS (Component I (Hybrid) Pension Plan as well.

53. **The Police and Fire Retirement System of the City of Detroit (PFRS) GASB[160] Statement Nos. 67 and 68 Accounting and Financial Reporting for Pension Plans of Component II (Legacy) at June 30, 2018 report was completed on October 17, 2018. This report represents the PFRS FY 2018 Component II (Legacy) pension actuary report. Page 14 of this report shows the PFRS's Net Pension Liability at $859.2 million as of June 30, 2018 for the PFRS Component II (Legacy) Pension Plan, which is also reflected in Note 7 on page 26 of the PFRS FY 2018 CAFR. The City uses the PFRS Net Pension Liability of $828.2 million as of June 30, 2017 in the City's FY 2018 CAFR (Page 94). Please explain why doesn't the City include the PFRS Net Pension Liability as of June 30, 2018 in the City's FY 2018 CAFR. Please also explain why is it using the prior year's (as of June 30, 2017) PFRS Net Pension Liability? Similar questions would apply to the PFRS (Component I (Hybrid) Pension Plan as well.**

54. **In the Required Supplementary Information on page 126 of the FY 2018 CAFR, the schedule only includes the data up to FY 2017. Please explain why isn't the FY 2018 Net Pension Liability as of June 30, 2018 included in the schedule?**

55. **Please explain why isn't the Income Stabilization Fund of the GRS and PFRS Component II (Legacy) Pension Plans included in the Pensions Footnote 8 on page 94 of the FY 2018 CAFR for the computation of the Net Pension Liability?**

56. **LPD understands that as of June 30, 2018, the $53.6 million balance in the "Due to Great Lakes Water Authority" liability account of the Sewer Fund represents a budget shortfall greater than two percent that the DWSD has agreed to cure via a written agreement with the GLWA. Please provide detail that explains the $53.6 million and a copy of any written agreement describing how the DWSD plans to cure this shortfall.**

57. **Please explain what are the major challenges for producing a timely CAFR in FY 2019 (i.e., by the December 31, 2019 deadline date) for the City's FY 2019 CAFR.**

Conclusion

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and the general public." Source: Mercatus Center George Mason University article entitled "GASB 67 and GASB 68: What the New Accounting Standards Mean for Public Pension Reporting", dated June 15, 2017.

[160] Ibid

LPD commends the Administration for the thoroughness of the 2018 CAFR and the wealth of financial information it contains In addition, the OCFO should be recognized for their great accomplishments in FY 2018 for grants, assessing, financial planning, and restructuring.

LPD encourages the Budget, Finance and Audit committee to continue its due diligence in understanding and examining the 2018 CAFR, and future CAFRs to come.

Please let us know if we can be of any more assistance.

Attachments

Attachment I

Balance Sheet
General Fund

		Balance June 30, 2018	Balance June 30, 2017	Variance	Balance June 30, 2013
ASSETS					
Cash and Cesh Equivalents	$	472,397,928	517,113,529	(44,715,801)	3,745,156
Investments		-	-	-	98,431,798
Accounts and Contracts Receivable:					
Estimated Withheld Income Taxes Receiva		21,288,094	23,468,899	(2,180,805)	26,324,313
Utility Users' Taxes Receivable		2,974,059	3,906,981	(932,922)	922,059
Property Taxes Receivable		19,199,238	80,277,933	(81,078,695)	229,037,260
Income Tax Assessments		41,115,527	74,268,869	(33,153,342)	34,395,579
Special Assessments		24,669,919	24,669,919	-	24,678,690
OIA and Foundation Receivable		179,376,108	186,046,059	(6,669,951)	-
Trade Receivables		203,456,735	197,922,006	5,534,729	182,223,491
Total Accounts and Contracts Receivable		492,079,680	590,560,666	(98,480,986)	497,581,392
Allowance for Uncollectible Accounts		(236,381,371)	(276,958,316)	40,576,945	(438,864,254)
Total Accounts and Contracts Receivable - Net		255,698,309	313,602,350	(57,904,041)	58,717,138
Due from Other Funds		52,656,741	59,386,882	(6,730,141)	37,213,151
Advances to Other Funds		13,048,500	-	13,048,500	
Due from Fiduclary Funds		2,762,256	2,381,066	381,190	2,795,937
Due from Component Units		3,223,518	-	3,223,518	1,696,589
Due from Other Governmental Agencies		39,696,200	44,548,590	(4,852,390)	84,993,602
Advances to Component units		8,112,504	10,000,000	(1,887,496)	
Prepaid Expenditures		1,856,230	1,072,987	783,243	
Restricted Cash		170,994,297	130,527,277	40,467,020	
Restricted Other Assets		11,811,340	9,227,868	2,583,472	
Other Advances		-	-	-	4,050,006
Other Assets		1,410,727	5,107,950	(3,697,223)	895,271
Total Assets		1,033,668,550	1,092,968,499	(59,299,949)	292,538,648
DEFERRED OUTFLOWS OF RESOURCES				-	
Total Assets and Deferred Outflows of Resources	$	1,033,668,550	1,092,968,499	(59,299,949)	292,538,648
LIABILITIES					
Accounts and Contracts Payable	$	44,916,312	38,745,405	6,170,907	18,854,370
Accrued Liabilities		98,570	434,195	(335,625)	34,807,913
Accrued Salaries and Wages		30,762,720	21,713,994	9,048,726	19,265,344
Due to Other Funds		67,614,518	96,303,233	(28,688,715)	86,548,889
Due to Fiduciary Funds		7,848,592	3,745,203	4,103,389	44,439,265
Due to Other Governmental Agencies		9,506,457	18,436,914	(8,930,457)	81,863,033
Due to Component Units		-	2,673,088	(2,673,088)	1,985,328
Income Tax Refunds Payable		16,335,767	15,440,330	895,437	8,373,617
Deposits from Vendors and Customers		6,907,380	6,766,607	140,773	4,986,969
Unearned Revenue		-	-	-	45,260,341
Other Liabilities		27,434,970	31,432,918	(3,997,948)	14,892,981
Accrued Interest Payable		-	3,681,905	(3,681,905)	
Claims and Judgments		-	-	-	4,241,347
Total Liabilities	$	211,425,286	239,373,792	(27,948,506)	365,519,397
DEFERRED INFLOWS OF RESOURCES		211,059,303	260,802,179	(49,742,876)	-
FUND BALANCES (DEFICIT)					
Nonspendable:					
Prepaid Expenditures and Advances	$	23,017,234	11,072,987	11,944,247	4,050,006
Restricted for:					
Capital Acquisitions		-	-	-	979,826
Retiree benefits		103,278,781	90,148,163	13,130,618	
QOL Program		38,262,992	54,675,178	(16,412,186)	-
Debt service		27,500,000	27,500,000	-	
Committed for:					
Risk Management Operations		20,000,000	20,000,000	-	54,550,314
Assigned for:					
Budget Reserve		62,280,192	62,280,192	-	
Subsequent Appropriations		58,826,131	60,253,830	(1,627,699)	
Blight and Capital		100,000,000	50,000,000	50,000,000	-
Risk Management Operations		46,760,226	47,895,504	(1,135,278)	
Unassigned:					
General Fund Surplus		131,458,405	168,966,674	(37,508,269)	(132,560,895)
Total Fund Balances		611,183,961	592,792,528	18,391,433	(72,980,749)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	$	1,033,668,550	1,092,968,499	(58,299,849)	292,538,848

Attachment II

Statement of Revenues, Expenditures, And Changes In Fund Balances

General Fund

	Balance June 30, 2018	Balance June 30, 2017	Variance	Balance June 30, 2013
REVENUES:				
Taxes:				
Property Taxes	$ 119 137,004	$ 129,532,4 2	$ (10,395 468)	$ 132 755,307
Municipal Income Tax	310,205,258	284,467,414	25,737 844	248 017,356
Utility Users' Tax	28,700,113	27,068 555	1,631 558	35,299,844
Wagering Tax	1 8,982,7	177,717,49	1,764, 80	174,599,992
Other Taxes and Assessments	3,395 606	10,362,346	(6,966,740)	11,689,666
Interest and Penalties on Taxes	3,144,262	3,482 208	(337,946)	924,928
Licenses, Permits, and Inspection Charges	13,278,160	11 350,678	1 927,482	10,665,160
Intergovernmental:				
Federal	2,810,496	162,389	2,648,10	47,517,680
State:				
State Shared Revenue	199,899,929	197 831, 55	2 068,1 4	183,058,520
State and Local Sources	1,133,5 2	799,306	334,266	8,990,794
Sales and Charges for Services	2,9 2,064	78 092,332	(5 120,268)	138,617,705
Ordinance Fines and Forfeitures	21,197,252	23 448,184	(2,250,932)	18,941,254
Revenue from Use of Assets	1,103,0 2	1,1 6,838	(73, 66)	12,017,348
Investment Earnings (Losses)	15,316,209	15,248,604	67,605	(532,986)
DIA and Foundation Revenue	6,669,952	5,730,109	939,843	
Other Revenue	28,053,843	22,967,535	5,086,308	20,750,950
Total Revenues	1,005,999,069	988,938,222	17,060,84	1,043,313,518
EXPENDITURES:				
Current:				
Public Protection	435,575, 56	412,024,531	23,551,225	452,422,790
Health	6,140,112	5,023,683	1,116,429	32,705,761
Recreation and Culture	18,172,541	17,791,620	380,921	13,149,199
Economic Development	500,000		500,000	
Housing Supply and Conditions	12,317,557	7,714,818	4,602,739	4,188,991
Physical Environment	5,149,677	9,613,796	(4,464,119)	68,268,583
Development and Management	315,102,385	318,517,678	(3,415,293)	191,052,907
Debt Service:				
Principal	62,335,378	16,614,797	45,720,581	
Interest	45,875,155	68,126,894	(22,251,739)	2,570,598
Bond Issuance Costs	136,000	2,526,983	(2,390,983)	1,612,046
Capital Outlay	49,284,512	22,355,467	26,929,045	25,338,872
Total Expenditures	950,589,073	880,310,267	70,278,806	791,309,747
Excess (Deficiency) of Revenues Over (Under) Expenditures	55,409,996	108,627,955	(53,217,959)	252,003,771
OTHER FINANCING SOURCES (USES):				
Sources:				
Transfers In	26,268,117		26,268,117	9,256,416
Proceeds From Sale of Assets	3,158,285	2,345,315	812,970	
Proceeds From Bonds and Notes Issued		364,140,000	(364,140,000)	143,530,688
Premium on Debt Issuance		2,327,744	(2,327,744)	
Uses:				
Transfers Out	(66,444,965)	(78,144,758)	11,699,793	(208,284,967)
Principal Paid to Bond Agents for Refunded Bonds		(345,455,000)	345,455,000	
Total Other Financing Sources (Uses)	(37,018,563)	(54,786,699)	17,768,136	(55,497,863)
Net Change in Fund Balances	18,391,433	53,841,256	(35,449,823)	196,505,908
Fund Balances at Beginning of Year (Restated)	592,792,528	538,951,272	53,841,256	(269,486,657)
Fund Balances at End of Year	$ 611,183,961	$ 592,792,528	$ 18,391,433	$ (72,980,749)

Attachment III

Statement of Net Position
Primary Government

	Balance June 30, 2018	Balance June 30, 2017	Variance	Balance June 30, 2013
ASSETS				
Cash and Cash Equivalents	$ 935,175,427	$ 805,943,974	$ 129,231 453	$ 245,748 434
Restricted Cash and Cash Equivalents	285,003,700	286,519,250	(1,515 550)	
Investments	22,646,258	34,016,952	(11,370,694)	946,998 283
Accounts and Contracts Receivable - Net	355,572,117	412,699,290	(57,127,173)	300,747 636
Internal Balances			......	
Due from Primary Government			......	
Due from Fiduciary Funds	4,793,121	4,104,414	688 707	
Due from Component Units	3,223,518		3,223 518	2,890 6[illegible]5
Due from Other Governmental Agencies	85,988,103	121,382,279	(35,394 176)	111,724 029
Inventory	9,227,996	8,853,331	374,665	20,559 223
Prepaid Expenses	3,264,819	1,913,538	1,351 281	4,917 878
Long-Term Receivable			....	9,521 918
Advance to Component Unit	8,112,504	10,000,000	(1,887 496)	24,016,604
Receivable from GLWA	1,092,228,800	1,062,342,235	29,886 565	
Other Assets	1,410,727	5,107,950	(3,697 223)	1,044 242
Net OPEB Asset	245,791		245 791	
Net Pension Asset				1,286,275 [illegible]15
Deferred Charges				143,230 109
Restricted Assets	11,811,340	9,227,868	2,583 472	
Capital Assets:				
Non-Depreciable	515,897,017	663,116,453	(147,219 436)	931,442 832
Depreciable, Net	2,305,610,832	2,189,764,526	115,846,306	5,781,339,248
Total Capital Assets - Net	2,821,507,849	2,852,880,979	(31,373,130)	6,712,782,080
Total Assets	5,640,212,070	5,614,992,060	25,220,010	9,810,406,826
DEFERRED OUTFLOWS OF RESOURCES	168,016,975	290,274,573	(122,257,598)	
LIABILITIES				
Accounts and Contracts Payable	125,050,390	95,387,064	29,663 326	187,314 575
Accrued Liabilities	114,788	2,233,235	(2,118 447)	53,467 871
Accrued Salaries and Wages	32,894,153	23,746,632	9,147 521	23,330 09[illegible]
Accrued Interest Payable	19,362,034	26,527,544	(7,165 510)	169,437,102
Due to Other Governmental Agencies	87,053,362	164,843,256	(77,789 894)	130,823 920
Due to Fiduciary Funds	14,752,844	12,068,761	2,684,083	
Due to Component Units	4,183,129	6,852,92[illegible]	(2 669 799)	9 12[illegible],372
Deposits and Refunds	30,231,752	24,358,11[illegible]	5 8[illegible]3 63[illegible]	14 1[illegible]2,507
Unearned Revenue	42,915,253	18,708,34[illegible]	24 206,906	18 6[illegible]8,599
Derivative Instruments - Swap Liability			-	296 488,744
Settlement Credit Contingent Liability	25,000,000	25,000,00[illegible]	-	
Net Pension Liability	1,560,912,703	1,657,601,18[illegible]	(96,688 486)	
Other Liabilities	87,690,729	54,949,99[illegible]	2[illegible] 40 [illegible]32	5 293,277
Long-Term Obligations:				
Due within one year	142,027,351	139,064,63[illegible]	2 962 [illegible]16	142 48[illegible],094
Due in more than one year	2,716,784,478	2,835,114,438	(118,329,960)	9,192,9[illegible],938
Total Liabilities	4,888,972,966	5,086,456,143	(197,483,177)	10,488,585,046
DEFERRED INFLOWS OF RESOURCES	21,218,442	6,737,301	14,481,141	-
NET POSITION (DEFICIT)				
Net Investment in Capital Assets	1,565,557,488	1,518,927,32[illegible]	46,630,168	1,358 [illegible]91,011
Restricted for:				
Highway and Street Improvement	71,447,148	54,448,243	16,998,905	39 980,142
Construction Code	19,580,707	18,509,391	1 071,316	
Endowments and Trust (Expendable)	640,541	687,258	(46,717)	8[illegible]9,870
Endowments and Trust (Non-Expendable)	1,005,096	1,005,096	-	93[illegible],861
Capital Projects and Acquisitions	8,426,872	13,714,763	(5,287,891)	1 90[illegible],238
Debt Service	74,097,075	64,824,460	9,272,615	2[illegible]5 4[illegible],351
Improvements and Extensions	7,500,000	48,871,608	(41,371,608)	
Budget Stabilization	1,184,871	10,933,000	(9,748,129)	
Community and economic development	20,766,624		20,766,624	
Pension		186,046,059	(186,046,059)	
Grants	15,770,670	15,328,03[illegible]	442 633	
Local Business Growth	478,084	478,084	-	
Police	9,026,833	10,735,208	(1,708 375)	
Rubbish Collection and Disposal	61,439,971	52,226,266	9 213 705	
Unrestricted (Deficit)	(958,884,343)	(1,184,661,604)	225,7[illegible],261	(2,355,364,693)
Total Net Position (Deficit)	$ 898,037,637	$ 812,073,189	$ 85,964,448	$ (678,178,220)

Attachment IV
Statement of Changes In Net Position
Primary Government

	Balance June 30, 2018	Balance June 30, 2017	Variance	Balance June 30, 2013
Revenues				
Program revenues				
Charges for services	$ 644,995,291	$ 611,237,538	$ 33,757,753	$ 1,124,725,171
Operating grants	234,655,745	239,607,308	(4,951,563)	281,613,540
Capital grants	17,328,035	7,971,197	9,356,838	31,595,558
General revenues				
Property Taxes	159,149,463	248,296,337	(89,146,874)	199,191,923
Municipal Income Tax	299,346,019	301,069,434	(1,723,415)	248,017,356
Utility User Tax	28,700,113	27,068,555	1,631,558	35,299,844
Wagering Tax	178,982,277	177,217,497	1,764,780	174,357,416
Shared Taxes	199,899,929	197,831,755	2,068,174	183,058,520
Other Local Taxes	6,639,335	13,971,461	(7,332,126)	15,309,357
Investment Earnings	16,396,949	16,389,776	7,173	(135,001,916)
Miscellaneous	94,846,900	75,531,601	19,315,299	19,120,327
Loss on Sale of Capital Assets	-	(1,807,647)	1,807,647	
Total Revenues	1,880,940,056	1,914,384,812	(33,444,756)	2,177,287,096
Expenses				
Public Protection	459,155,038	643,746,962	(184,591,924)	694,708,112
Health	32,958,070	29,784,840	3,173,230	38,070,128
Education	-	-	-	37,040,734
Recreation and Culture	37,416,517	29,922,328	7,494,189	26,856,182
Economic Development	45,345,939	42,562,725	2,783,214	81,455,649
Transportation	35,829,655	31,513,472	4,316,183	20,745,859
Housing Supply and Conditions	25,015,853	9,810,694	15,205,159	5,086,777
Physical Environment	152,794,269	116,733,180	36,061,089	121,192,467
Development and Management	403,929,393	325,937,109	77,992,284	205,937,823
Interest on Long-term Debt	62,525,448	91,611,017	(29,085,569)	133,545,027
Sewage Disposal	300,112,413	314,993,258	(14,880,845)	523,909,799
Transportation	158,602,192	178,551,373	(19,949,181)	166,024,287
Water	130,123,421	122,932,303	7,191,118	398,086,572
Automobile Parking	29,509,883	10,257,721	19,252,162	20,089,165
Airport	2,420,424	2,504,453	(84,029)	1,910,151
Public Lighting Authority	21,097,017	16,328,382	4,768,635	
Total Expenses	1,896,835,532	1,967,189,817	(70,354,285)	2,474,658,732
Excess (deficiency) before	(15,895,476)	(52,805,005)	36,909,529	(297,371,636)
Gain on Sale of Capital Assets	-	-	-	(8,832,679)
Expenses - Pension Recovery	-	-	-	
Special Item - Bifurcation	101,859,924	(157,954,520)	259,814,444	
Increase/(decrease) in Net Position	85,964,448	(210,759,525)	296,723,973	(306,204,315)
Net Position, July 1 (Restated)	812,073,189	1,022,832,714	(210,759,525)	(371,973,905)
Net Position, June 30	$ 898,037,637	$ 812,073,189	$ 85,964,448	$ (678,178,220)

ATTACHMENT V

Relevant for FY 2018: Questions on FY 2017 DWSD Financial Statements Net Position and DWSD Management Responses

- The FY 2017 financial statements for the Water and Sewage Disposal Funds show unrestricted fund balances of $401.9 and $486.1 million, respectively. How do you explain that the unrestricted balances cannot be used to reduce the water and sewer rates charged to its customers? How do you explain to the employee unions that the unrestricted net position cannot be used to provide salary and benefit increases?

  DWSD Response

  Generally speaking, public utilities are capital-intensive operations that frequently rely on the accumulation of significant reserves in order to manage cash flow requirements. DWSD is currently executing on a $500 million capital program that will be funded from multiple sources including unrestricted fund balances. Utilizing currently available funds also allows DWSD to better manage its long-term debt program by allowing flexibility in the timing of debt issuance.

  It is also important to understand that DWSD water and sewer rates are derived from the calculation of revenue requirements that are determined using a modified (or contractual) basis of accounting. In estimating the annual revenue requirements for water and sewer operations, lease collections, debt service payments and capital expenses are calculated on the cash basis of accounting. Depreciation expense is excluded from the calculation. All other revenues and expenses are determined on the accrual basis of accounting.

  For rate-setting purposes, the future collection of lease principal amounts, which in the aggregate approximate the unrestricted fund positions of the water and sewer funds, will be applied to reduce future revenue requirements and, arguably, will be considered a source of revenue that does, in fact, reduce future water and sewer rates. The Department may choose in future years to apply those resources in a manner that effectively funds salary and benefit increases, or to any other operational requirement as they may deem appropriate.

- Will the Water and Sewage Funds decide in the future to restrict some of the net position for needed capital/infrastructure expenditures?

  DWSD Response

  Amounts may be required to be restricted in connection with the future issuance of bonds to finance such capital/infrastructure expenditures. The Department has no ability to unilaterally "restrict" funds for such purposes, however, it is our intention to maximize the use of lease receipts for Improvement and Extension Fund projects.

- Why does the Water and Sewage Disposal Funds have such a low net investment in capital assets when the net capital assets are so much higher?

  DWSD Response

  The net investment in capital assets is reduced for the amount of outstanding indebtedness related to the capital assets. Those amounts include the Obligations payable to GLWA (representing DWSD's allocated share of pre-bifurcation debt), Revenue bonds and State revolving loans as identified in Note 5 to the Financial Statements.

- What is the condition of the DWSD's water and sewer capital infrastructure? How crucial is it to dedicate available resources to funding repairs and replacement over other needs?

  <u>**DWSD Response**</u>

  The water and sewer infrastructure is showing its age and in need of significant repair and/or replacement. We are currently in the process assessing the condition of all water and sewer assets with the intention of developing a long-term plan to address those needs. The Department is currently committed to a five-year, $500 million program to address the more immediate system concerns.

ATTACHMENT VI

Public Lighting Authority
Excess Utility User Tax (FY 2013-FY 2018)

	2013	2014	2015	2016	2017	2018	Total
Utility User Tax	$ 1,200,000	17,549,994	12,500,000	12,500,000	12,500,000	12,500,000	$ 68,749,994
City Subsidy		757,500	5,527,177	8,886,743	10,039,058	10,302,828	35,513,306
Other Revenue		2,660	1,246,321	1,142,791	1,072,660	835,724	4,300,156
Total Revenue	1,200,000	18,310,154	19,273,498	22,529,534	23,611,718	23,638,552	108,563,456
Operating Expense	161,549	1,304,983	5,589,821	8,157,578	7,813,490	12,711,589	35,739,010
Other Expense					10,493	(205,540)	(195,047)
Debt Service		585,489	8,997,509	8,600,792	8,509,892	8,385,092	35,078,774
Bond Issuance		916,636	2,119,241		5,000	5,000	3,045,877
Total Expense	161,549	2,807,108	16,706,571	16,758,370	16,338,875	20,896,141	73,668,614
Surplus/(Deficit)	$ 1,038,451	15,503,046	2,566,927	5,771,164	7,272,843	2,742,411	$ 34,894,842
Principal Paid		-	2,970,000	3,030,000	3,120,000	3,245,000	12,365,000
Excess UUT	1,200,000	16,047,869	(1,586,750)	869,208	865,108	864,908	$ 18,260,343